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Reproducible Federal Tax Forms for Use in Libraries

Volume 2

This publication of reproducible Federal Tax Forms was published as an aid to taxpayers who have a need for specific tax forms and find it more convenient and timely to obtain photocopies at their local library. Only selected tax forms are included in this volume. Most taxpayers are furnished a Taxpayer Order Blank in the individual income tax package sent to their home or place of business which may be used to order tax forms. Additional tax forms are available from most IRS Offices and IRS Forms Distribution Centers which are listed in this volume.

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Tax practitioners who require quantities of certain tax forms should call their district office and request a copy of IRS Publication 1045, *Information for Tax Practitioners*. Publication 1045 contains order blanks for obtaining limited quantities of tax forms and general information to aid practitioners in the preparation of Federal Tax Forms.

Department of the Treasury
Internal Revenue Service
Publication 1132-Vol 2 (Rev 1-89)

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Notice Concerning Material Listed In The Table of Contents

Forms and instructions listed in the Table of Contents with two asterisks (**) will not be available in either volume of Publication 1132. To obtain these forms, taxpayers must use the order blank in their tax packages or use a photocopy of the order blank on page 245 of Volume 1. Forms and instructions listed in the Table of Contents with one asterisk (*) are contained in Volume 1 of Publication 1132.

For a complete Subject Index of all tax forms and related items, see Publication 1200.

How To Locate A Form In This Publication

If you know:	then to locate it use the:
— *the Form Number*	— *Table of Contents found beginning on page* **1**.
— *the Title of a form*	— *Alphabetical Index of Federal Tax Forms beginning on page* **3**.

Forms Not Contained In This Publication

The following forms are not contained in this kit of Reproducible Forms because they are specially printed (machine readable or multipart) forms. If printed copies of these forms are not available at this location, they may be obtainable from the IRS. See instructions on page 247.

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Form W-2C	Form W-2 Correction
Form W-2G	Statement for Certain Gambling Winnings
Form W-2 GU	Guam Wage and Tax Statement
Form W-2P	Statement for Recipients of Annuities, etc.
Form W-2VI	U.S. Virgin Islands Wage and Tax Statement
Form 1098	Mortgage Interest Statement
Form 1099-A	Acquisition or Abandonment of Secured Property
Form 1099-B	Statement for Recipients of Proceeds from Broker
Form 1099-DIV	Statement for Recipients of Dividends and Distributions
Form 1099-G	Statement for Recipients of Certain Government Payments
Form 1099-INT	Statement for Recipients of Interest Income
Form 1099-MISC	Statement for Recipients of Miscellaneous Income
Form 1099-OID	Statement for Recipients of Original Issue Discount
Form 1099-PATR	Statement for Recipients of (Patrons) of Tax
Form 1099-R	Statement for Recipients of Lump-Sum Distributions
Form 1042S	Income Subject to Withholding Under Chapter 3
Form 5498	Individual Retirement Arrangement Information

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Form **1040-ES (OCR)**

Department of the Treasury
Internal Revenue Service

Estimated Tax for Individuals

OMB No. 1545-0087
Expires 8-31-91

1989

Instructions

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	1 hr., 25 min.
Learning about the law or the form	21 min.
Preparing the form	1 hr., 17 min.
Copying, assembling, and sending the form to IRS	10 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to the **Internal Revenue Service,** Washington, DC 20224, Attention: IRS Reports Clearance Officer, TR:FP; or the **Office of Management and Budget,** Paperwork Reduction Project, Washington, DC 20503.

Changes To Note

Tax Indexing. The Tax Rate Schedules have been adjusted so that inflation will not result in tax increases (see page 6).

Changes in the law for 1989 affect the personal interest deduction, the standard deduction, personal exemptions, and the earned income credit (see page 5). Also see **Pub. 553,** Highlights of 1988 Tax Changes, for other tax law changes.

Address Change. Use the "Notice of Address Change" on page 4 to notify IRS of any change in your address. Mail it to IRS along with your estimated tax payment.

Supplemental Medicare Premium. You may owe a supplemental Medicare premium if you are eligible for Medicare Part A benefits for more than 6 months in 1989 and your 1989 income tax will be $150 or more. The supplemental premium will be used to help pay the cost of the new Medicare coverage for catastrophic expenses and prescription drugs.

You will have to add the premium to the tax on your 1989 income tax return. So that you won't have to pay too much tax with your 1989 return, you may want to increase your estimated tax payments for 1989 to cover the amount of any supplemental Medicare premium you may owe. To do so, include on line 12 of the worksheet on page 3 the amount of the premium you expect to owe for 1989. For 1989, you will not owe a penalty for any underpayment of estimated tax due to the supplemental premium.

The 1989 premium is $22.50 for each $150 of your income tax (with certain adjustments), up to a maximum premium of $800. The maximum premium is $1,600, however, if you are married filing a joint return and both you and your spouse are eligible for Medicare Part A. Special rules apply to married persons filing separate returns.

If you want more information, including a worksheet and tables for figuring the exact premium, get **Pub. 934,** Supplemental Medicare Premium.

Purpose of Form.—Use this form to figure and pay your estimated tax.

Estimated tax is the tax you expect to owe for the year after subtracting the tax you expect to have withheld and any credits you plan to take.

A. Who Must Make Estimated Tax Payments

The rules are for U.S. citizens or residents and for residents of Puerto Rico, Virgin Islands, Guam, the Commonwealth of the Northern Mariana Islands, and American Samoa. (If you are a nonresident alien, use **Form 1040-ES(NR).**)

Generally, you must pay estimated tax if you expect to owe, after subtracting your withholding and credits, at least $500 in tax for 1989; and you expect your withholding and credits to be less than the smaller of:

1. 90% of the tax shown on your 1989 tax return, **OR**

2. 100% of the tax shown on your 1988 tax return (assuming the return covered all 12 months).

Exceptions.—*Generally, you do not have to pay estimated tax if your 1989 income tax return will show (1) a tax refund, or (2) a tax balance due of less than $500. Also, you do not have to pay estimated tax if you were a U.S. citizen or resident and you had no tax liability for the full 12-month preceding tax year.*

Note: *If you have to make estimated tax payments and receive salaries and wages, you may not have enough tax withheld during the year. To avoid making estimated tax payments, consider asking your employer to take more tax out of your earnings. To do this, file a new* **Form W-4**, *Employee's Withholding Allowance Certificate, with your employer to make sure you will not owe $500 or more in tax.*

B. How To Figure Your Estimated Tax

Use the Estimated Tax Worksheet on page 3, the 1989 Tax Rate Schedules on page 6, the instructions on page 5, and your 1988 tax return as a guide for figuring your estimated tax.

See the **1988 Instructions for Form 1040** for information on figuring your income, deductions, and credits, including the taxable amount of **social security income**.

Note: *You may not make joint estimated tax payments if: (1) either you or your spouse is a nonresident alien, (2) you are separated under a decree of divorce or separate maintenance, or (3) you and your spouse have different tax years.*

Line 7—Additional taxes.—Enter on line 7 any additional taxes from **Form 4970**, Tax on Accumulation Distribution of Trusts, **OR Form 4972**, Tax on Lump-Sum Distributions.

(Continued on page 2)

Line 9—Credits.—For details on credits you may take, see Form 1040, lines 41 through 46, and the related instructions.

Line 11—Self-employment tax.—If you and your spouse make joint estimated tax payments and both have self-employment income, figure the estimated self-employment tax separately. Enter the total amount on line 11.

Line 12—Other taxes.—Enter any other taxes such as recapture of investment credit, tax on premature distributions (Form 5329, Part II only), and alternative minimum tax. You do not have to include social security tax on tip income not reported to your employer or uncollected employee social security and RRTA tax on tips. For details, see pages 18 and 19 of the 1988 Instructions for Form 1040.

C. How To Use the Payment-Voucher

Each payment-voucher has the date when the voucher is due for calendar year taxpayers. Please use the correct voucher.

(1) The payment-vouchers are preprinted with your name, address, and social security number. Please make the needed changes if your name, or social security number is not correct. If your address changes, complete and mail to IRS the "Notice of Address Change" on page 4. If you are filing a joint payment-voucher, your spouse's name and social security number should be included on the voucher. Please cross out the name and social security number of a deceased or divorced spouse. If you file a joint payment-voucher and have different last names, please separate them with an "and." For example, "John Brown and Mary Smith."

(2) Enter the net amount of your payment on line 1 of the payment-voucher. If you paid too much tax on your 1988 tax return, you may have chosen to apply the overpayment to your estimated tax for 1989. If so, you may apply all or part of the overpayment to any voucher. **Send the payment-voucher to IRS ONLY when you are making a payment.**

(3) Tear off the payment-voucher at the perforation.

(4) Enclose, but please do not staple or attach, your check or money order with the payment-voucher. Make the check or money order payable to "Internal Revenue Service" (not "IRS"). Write your social security number and "**1989 Form 1040-ES**" on your check or money order. **Do not** include any balance due on your Form 1040 with your check for estimated tax. Fill in the Record of Estimated Tax Payments on page 5 so you will have a record of your payments.

(5) Mail your payment-voucher to the address for the place where you live. Use the addressed envelopes that came with your payment-voucher, or use the address shown on page 4.

D. When To Pay Your Estimated Tax

In general, you must make your first estimated tax payment by April 17, 1989. The April 17th date applies whether or not you are outside the United States and Puerto Rico on April 17. You may either pay all of your estimated tax at that time or pay in four equal amounts that are due by April 17, 1989; June 15, 1989; September 15, 1989; and January 16, 1990. Exceptions to these rules are listed below.

(1) Other payment dates.—In some cases, such as a change in income, you may have to make your first estimated tax payment after April 17, 1989. The payment dates are as follows:

If the requirement to pay estimated tax is met after:	**Payment date is:**
• March 31 and before June 1	June 15, 1989
• May 31 and before Sept. 1	Sept. 15, 1989
• August 31	Jan. 16, 1990

Note: *You may use the "Amended Estimated Tax Schedule" on page 3 to figure your amended estimated tax.*

If the first payment you are required to make is due:

- *June 15, 1989, enter ½;*
- *September 15, 1989, enter ¾;*
- *January 16, 1990, enter all*

of line 16 (less any 1988 overpayment applied to this installment) on line 17 of the worksheet and on line 1 of the payment-voucher.

If you file your 1989 Form 1040 by January 31, 1990, and pay the entire balance due, then you do not have to make the payment which would otherwise be due January 16, 1990.

(2) Farmers and fishermen.—If at least two-thirds of your gross income for 1988 or 1989 is from farming or fishing, you may do one of the following:

- Pay all of your estimated tax by January 16, 1990; **OR**
- File Form 1040 for 1989 by March 1, 1990, and pay the total tax due. In this case, you do not need to make estimated tax payments for 1989.

(3) Fiscal year.—If your return is on a fiscal year basis, your due dates are the 15th day of the 4th, 6th, and 9th months of your fiscal year and the 1st month of the following fiscal year. If any date falls on a Saturday, Sunday, or legal holiday, use the next regular workday.

E. Penalty for Not Paying Enough Estimated Tax

You may be charged a penalty for not paying enough estimated tax, or for not making the payments on time in the required amount (even if you have an overpayment on your tax return). The penalty does not apply if each required payment is timely and the total tax paid:

- Is at least 90% (66⅔% for farmers and fishermen) of the amount of income tax (including alternative minimum tax) and self-employment tax due as shown on your return for 1989, or 90% of the tax due if no return was filed;
- **Is 100% of the tax shown on your return for 1988** (you must have filed a return for 1988 and it must have been for a full 12-month year); **OR**
- Is 90% of the tax figured by annualizing the taxable income, alternative minimum taxable income, and adjusted self-employment income received for the months ending before the due date of the installment.

Note: *The penalty may be waived under certain conditions. Get* **Pub. 505**, *Tax Withholding and Estimated Tax, for details.*

Caution: *You may be required to make payments of past due amounts to avoid further penalty. You may have to make these payments if you do not make your estimated tax payments on time, or if you did not pay the correct amount for a previous payment date.*

(Continued on page 4)

1989 Estimated Tax Worksheet (Keep for Your Records—Do Not Send to Internal Revenue Service)

1	Enter amount of Adjusted Gross Income you expect in 1989				1		
2	If you plan to itemize deductions, enter the estimated total of your deductions. If you do not plan to itemize deductions, see **Standard Deduction for 1989** on page 5. Enter the amount here				2		
3	Subtract line 2 from line 1. Enter the difference here				3		
4	Exemptions (multiply $2,000 times number of personal exemptions). If you are eligible to be claimed as a dependent on another person's return, your personal exemption is not allowed				4		
5	Subtract line 4 from line 3.				5		
6	Tax. (Figure your tax on line 5 by using the Tax Rate Schedules in these instructions. DO NOT use the Tax Table or the Tax Rate Schedules in the 1988 Form 1040 Instructions.)				6		
7	Enter any additional taxes (see line 7 Instructions)				7		
8	Add lines 6 and 7.				8		
9	Credits (see line 9 Instructions)				9		
10	Subtract line 9 from line 8.				10		
11	Self-employment tax. Estimate of 1989 self-employment income $__________________; if $48,000 or more, enter $6,249.60; **if less, multiply the amount by .1302** (see line 11 Instructions)				11		
12	Other taxes (see line 12 Instructions)				12		
13a	Total. Add lines 10 through 12				13a		
b	Earned income credit and credit from **Form 4136**				13b		
c	Total. Subtract line 13b from line 13a				13c		
14a	Enter 90% (66 ⅔% for farmers and fishermen) of line 13c	14a			▨		
b	Enter 100% of the tax shown on your 1988 tax return	14b			▨		
c	Enter the smaller of lines 14a or 14b. This is your required annual payment				14c		
	Caution: *Generally, if you do not prepay at least the amount on line 14c, you may be subject to a penalty for not paying enough estimated tax. To avoid a penalty, make sure your estimate on line 13c is as accurate as possible. If you are unsure of your estimate and line 14a is smaller than line 14b, you may want to pay up to the amount shown on line 14b. For more information, get Pub. 505.*				▨		
15	Income tax withheld and estimated to be withheld (including income tax withholding on pensions, annuities, certain deferred income, etc.) during 1989				15		
16	Balance (subtract line 15 from line 14c). (**Note:** If line 13c less line 15 is less than $500, you are not required to make estimated tax payments.) If you are applying an overpayment from 1988 to 1989 estimated tax, see Instruction C(2), page 2				16		
17	If the first payment you are required to make is due April 17, 1989, enter ¼ of line 16 (less any 1988 overpayment that you are applying to this installment) here and on line 1 of your payment-voucher(s). You may round off cents to the nearest whole dollar				17		

Amended Estimated Tax Schedule (Use if your estimated tax changes during the year)

1	Amended estimated tax				1		
2a	Amount of 1988 overpayment chosen for credit to 1989 estimated tax and applied to date	2a			▨		
b	Estimated tax payments to date	2b			▨		
c	Total of lines 2a and 2b				2c		
3	Unpaid balance (subtract line 2c from line 1)				3		
4	Amount to be paid (see Instructions D (1) and E)				4		

Example: On June 1, 1989, you find out that you should have made an estimated tax payment for April 17. You should immediately fill out the payment-voucher due April 17, 1989, and send in the required amount (¼ × 1989 estimated tax).

For more details about the penalty, get Pub. 505.

If you changed your name because of marriage, divorce, etc., and you made estimated tax payments using your old name, you should attach a brief statement to the front of your 1989 Form 1040. In it, explain all the estimated tax payments you and your spouse made for 1989, the address where you made the payments, and the name(s) and social security number(s) under which you made payments.

F. Where To File Your Payment-Voucher

Mail your payment-vouchers to the Internal Revenue Service at the following address.

Do not mail your tax return to these addresses. Also do not mail your estimated tax payments to the address shown in the Forms 1040 or 1040A Package.

Note: *For proper delivery of your estimated tax payments, you must include the P.O. Box number in the address.*

If you are located in: ▼	Use this address: ▼
New Jersey, New York (New York City, and counties of Nassau, Rockland, Suffolk, and Westchester)	P.O. Box 162 Newark, NJ 07101-0162
New York (all other counties), Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	P.O. Box 371999 Pittsburgh, PA 15250-7999
Delaware, District of Columbia, Maryland, Pennsylvania, Virginia	P.O. Box 8318 Philadelphia, PA 19162-0825
Florida, Georgia, South Carolina	P.O. Box 62001 Philadelphia, PA 19162-0300
Indiana, Kentucky, Michigan, Ohio, West Virginia	P.O. Box 7422 Chicago, IL 60682-7422
Kansas, New Mexico, Oklahoma, Texas	P.O. Box 970001 St. Louis, MO 63197-0001
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	P.O. Box 450001 San Francisco, CA 94145-4501
California (all other counties), Hawaii	P.O. Box 54030 Los Angeles, CA 90054-0030
Illinois, Iowa, Minnesota, Missouri, Wisconsin	P.O. Box 6413 Chicago, IL 60680-6413
Alabama, Arkansas, Louisiana, Mississippi, North Carolina, Tennessee	P.O. Box 371300M Pittsburgh, PA 15250-7300
American Samoa	P.O. Box 8318 Philadelphia, PA 19162-0825
Guam	Commissioner of Revenue and Taxation 855 West Marine Drive Agana, GU 96910
The Commonwealth of the Northern Mariana Islands	P.O. Box 8318 Philadelphia, PA 19162-0825
Puerto Rico (or if excluding income under section 933) Virgin Islands Nonpermanent residents	P.O. Box 8318 Philadelphia, PA 19162-0825
Virgin Islands Permanent residents	V.I. Bureau of Internal Revenue Lockharts Garden No. 1A Charlotte Amalie St. Thomas, VI 00802
A.P.O. or F.P.O. address of	Miami—Atlanta, GA 39901 New York—Holtsville, NY 00501 San Francisco—Fresno, CA 93888 Seattle—Ogden, UT 84201
Foreign country U.S. citizens and those filing Form 2555 or Form 4563, even if you have an A.P.O. or F.P.O. address	P.O. Box 8318 Philadelphia, PA 19162-0825

Notice of Address Change

If your address has changed, please complete this form and mail it along with your estimated tax payment to IRS.

You first name and initial (if joint payments, also give spouse's first name and initial)
Last name
Your social security number
Spouse's social security number
New Address Number, street, and apt. no. or rural route
Old Address Number and street
City, town or post office, state, and ZIP code
City, town or post office, state, and ZIP code
Your signature
Date
Spouse's signature
Date

Tax Law Changes Effective for 1989

Use your 1988 tax return as a guide in figuring your estimated tax, but be sure to consider the tax law changes noted in this section.

Itemized Deductions

Personal Interest.—For 1989, only 20% of personal interest (such as interest on car loans or credit card balances for personal expenditures) is deductible.

Standard Deduction for 1989

If you do not itemize your deductions, you may take the standard deduction instead. For 1989, the standard deduction amounts are:

Filing Status	Standard Deduction
Married filing joint return and Qualifying widow(er)	$5,200*
Head of household	$4,550*
Single	$3,100*
Married filing separately	$2,600*

*To these amounts, add the additional amount below.

Additional Amount for the Elderly or Blind.—An additional standard deduction amount of $600 is allowed for a married individual (whether filing jointly or separately) or a qualifying widow(er) who is 65 or over or blind ($1,200 if the individual is both 65 or over and blind, $2,400 if both spouses are 65 or over and blind). An additional standard deduction amount of $750 is allowed for an unmarried individual (single or head of household) who is 65 or over or blind ($1,500 if both 65 or over and blind).

Limited Standard Deduction for Dependents.—If you can be claimed as a dependent on another person's return, your standard deduction is the greater of (a) $500 or (b) your earned income, up to the standard deduction amount. To this amount add any additional amount for the elderly or blind discussed on this page.

For more information about the standard deduction, see Pub. 505.

Personal Exemptions

Exemption Amount.—The personal exemption amount has increased to $2,000 for each individual, the individual's spouse, and each dependent.

You may not claim an exemption in 1989 for your child who is a full-time student and who has attained age 24 in 1989, unless the child's gross income for 1989 is less than $2,000. If you cannot claim the exemption under this rule, the child may claim an exemption on his or her own return.

Credits

Earned Income Credit.—The maximum earned income credit is increased to $910 and the income limitation amount is increased to $19,340.

Record of Estimated Tax Payments

Payment number	(a) Date	(b) Amount	(c) 1988 overpayment credit applied	(d) Total amount paid and credited (add (b) and (c))
1				
2				
3				
4				
Total . . . . ▶				

Note: *If you are not required to make the estimated tax payment due April 17, 1989, at this time, you may have to make a payment by a later date. See Instruction D(1).*

1989 Tax Rate Schedules

Caution: *Do not use these Tax Rate Schedules to figure your 1988 taxes. Use only to figure your 1989 estimated taxes.*

Schedule X—Single

If line 5 is:		The tax is:	of the amount over—
Over—	*But not over—*		
$0	$18,550	.......15%	**$0**
18,550	44,900	**$2,782.50 + 28%**	**18,550**
44,900	93,130	**10,160.50 + 33%**	**44,900**
93,130	....	Use **Worksheet** below to figure your tax.	

Schedule Z— Head of household

If line 5 is:		The tax is:	of the amount over—
Over—	*But not over—*		
$0	$24,850	.......15%	**$0**
24,850	64,200	**$3,727.50 + 28%**	**24,850**
64,200	128,810	**14,745.50 + 33%**	**64,200**
128,810	....	Use **Worksheet** below to figure your tax.	

Schedule Y-1—Married filing jointly or Qualifying widow(er)

If line 5 is:		The tax is:	of the amount over—
Over—	*But not over—*		
$0	$30,950	.......15%	**$0**
30,950	74,850	**$4,642.50 + 28%**	**30,950**
74,850	155,320	**16,934.50 + 33%**	**74,850**
155,320	....	Use **Worksheet** below to figure your tax.	

Schedule Y-2— Married filing separately

If line 5 is:		The tax is:	of the amount over—
Over—	*But not over—*		
$0	$15,475	.......15%	**$0**
15,475	37,425	**$2,321.25 + 28%**	**15,475**
37,425	117,895	**8,467.25 + 33%**	**37,425**
117,895	....	Use **Worksheet** below to figure your tax.	

Worksheet (Keep for your records)

1. If your filing status is: Single, enter $26,076.40; Head of household, enter $36,066.80; Married filing jointly or Qualifying widow(er), enter $43,489.60; Married filing separately, enter $35,022.35 . . . . 1. ______
2. Enter your taxable income from line 5 of the Form 1040-ES worksheet . . . . 2. ______
3. If your filing status is: Single, enter $93,130; Head of household, enter $128,810; Married filing jointly or Qualifying widow(er), enter $155,320; Married filing separately, enter $117,895 . . . . 3. ______
4. Subtract line 3 from line 2. Enter the result. (If the result is zero or less, use the schedule above for your filing status to figure your tax. DON'T use this worksheet.) . . . . 4. ______
5. Multiply the amount on line 4 by 28% (.28). Enter the result . . . . 5. ______
6. Multiply the amount on line 4 by 5% (.05). Enter the result . . . . 6. ______
7. Multiply $560 by the number of exemptions claimed. (If married filing separately, see **Note** below.) Enter the result . . . . 7. ______
8. Compare the amounts on lines 6 and 7. Enter the **smaller** of the two amounts . . . . 8. ______
9. **Tax.** Add lines 1, 5, and 8. Enter the total here and on line 6 of the Form 1040–ES worksheet . . . . 9. ______

Note: *If married filing separately and you did **not** claim an exemption for your spouse, multiply $560 by the number of exemptions claimed. Add $560 to the result and enter the total on line 7 above.*

Form **1040-ES (OCR)**
Department of the Treasury
Internal Revenue Service

1989
Payment-Voucher

File only if you are **making a payment** of estimated tax.
Cross out the name and social security number of a deceased or divorced spouse.
If your address has changed, please complete the change of address form on page 4 of the instructions.

(Calendar year—Due April 17, 1989) OMB No. 1545-0087 Expires 8-31-91

1 Amount of payment $ ______
2 Fiscal year filers enter year ending ______ (month and year)

If name or social security number is incorrect, please change.

For Paperwork Reduction Act Notice, see instructions on page 1.

OCR Form
Do NOT Photocopy

Form **1040-ES (OCR)**
Department of the Treasury
Internal Revenue Service

1989
Payment-Voucher

File only if you are **making a payment** of estimated tax.
Cross out the name and social security number of a deceased or divorced spouse.
If your address has changed, please complete the change of address form on page 4 of the instructions.

(Calendar year—Due June 15, 1989) OMB No. 1545-0087 Expires 8-31-91

1 Amount of payment $ ______
2 Fiscal year filers enter year ending ______ (month and year)

If name or social security number is incorrect, and was **not previously corrected**, please change.

For Paperwork Reduction Act Notice, see instructions on page 1.

Form **1040-ES (OCR)**
Department of the Treasury
Internal Revenue Service

1989
Payment-Voucher

File only if you are **making a payment** of estimated tax.
Cross out the name and social security number of a deceased or divorced spouse.
If your address has changed, please complete the change of address form on page 4 of the instructions.

(Calendar year—Due Sept. 15, 1989) OMB No. 1545-0087 Expires 8-31-91

1 Amount of payment $ ______
2 Fiscal year filers enter year ending ______ (month and year)

If name or social security number is incorrect, and was **not previously corrected**, please change.

For Paperwork Reduction Act Notice, see instructions on page 1.

OCR Form
Do NOT Photocopy

Form **1040-ES (OCR)**
Department of the Treasury
Internal Revenue Service

1989
Payment-Voucher

File only if you are **making a payment** of estimated tax.
Cross out the name and social security number of a deceased or divorced spouse.
If your address has changed, please complete the change of address form on page 4 of the instructions.

(Calendar year—Due Jan. 16, 1990) OMB No. 1545-0087 Expires 8-31-91

1 Amount of payment $ ______
2 Fiscal year filers enter year ending ______ (month and year)

If name or social security number is incorrect, and was **not previously corrected**, please change.

For Paperwork Reduction Act Notice, see instructions on page 1.

Form **1040NR**
Department of the Treasury
Internal Revenue Service

U.S. Nonresident Alien Income Tax Return

For the year January 1–December 31, 1988, or other tax year beginning , 1988, and ending , 19

OMB No. 1545-0089

1988

Please print or type

Your first name and initial	Last name	**For Paperwork Reduction Act Notice, see page 1 of Instructions.**
Present home address (number, street, and apt. no., or rural route). (If a P.O. Box, see page 4 of Instructions.)		**Identifying or social security number**
City, town or post office, province, state, and ZIP code		Check whether ☐ Individual ☐ Fiduciary

Country ▶

Of what country were you a citizen or national during the tax year? ▶

Give address **outside the U.S.** to which you want any refund check mailed (if same as above, write "Same").	Give address in the country where you are a permanent resident (if same as above, write "Same").

Please attach Copy B of your Forms W-2, W-2G, and W-2P here

Filing Status and Exemptions for Individuals (See pages 4 and 5 of Instructions.)

Filing status (Check only one box)	7a Yourself	7b Spouse
1 ☐ Single resident of Canada or Mexico, or a U.S. National		▨
2 ☐ Other single nonresident alien		▨
3 ☐ Married resident of Canada or Mexico, or a U.S. National — Personal exemption for spouse is not allowable if spouse is filing a return.		
4 ☐ Married resident of Japan or the Republic of Korea (South) — Personal exemption for spouse is not allowable if spouse is filing a return.		
5 ☐ Other married nonresident alien		▨
6 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 5 of Inst.)		▨

Caution: *If someone (such as your parent) can claim you as a dependent, do not check box 7a. But be sure to check the box below line 35 on page 2.*

No. of boxes checked on 7a and 7b ▶ ____

7c Dependents:* (1) Name (first, initial, and last name)	(2) Check if under age 5	(3) If age 5 or older, dependent's social security number	(4) Relationship	(5) No. of months lived in your home in 1988

No. of your children on 7c who:

*lived with you ▶ ____

**didn't live with you due to divorce or separation ▶ ____

**No. of other dependents listed on 7c ▶ ____

* **Applies only to residents of Canada, Mexico, Japan, the Republic of Korea, and U.S. Nationals.** (See page 5 of the Instructions.)
** **Applies only to residents of Canada, Mexico, and U.S. Nationals.**

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐

e Total number of exemptions claimed

Add numbers entered on lines above ▶ ☐

Please attach check or money order here

Income Effectively Connected With U.S. Trade/Business

8	Wages, salaries, tips, etc. (attach Form(s) W-2)		8	
9a	**Taxable** interest income		9a	
b	**Tax-exempt** interest income (see page 6). DO NOT include on line 9a	9b	▨	
10	Dividend income		10	
11	Taxable refunds of state and local income taxes (see page 6 of Instructions)		11	
12	Scholarships and fellowships (attach explanation—see page 6 of Instructions)		12	
13	Business income or (loss) (attach Schedule C (Form 1040))		13	
14	Capital gain or (loss) (attach Schedule D (Form 1040))		14	
15	Capital gain distributions not reported on line 14		15	
16	Other gains or (losses) (attach Form 4797)		16	
17a	Total IRA distributions	17a ; 17b Taxable amount	17b	
18a	Total pensions and annuities	18a ; 18b Taxable amount	18b	
19	Rents, royalties, partnerships, estates, trusts, etc. (attach Schedule E (Form 1040))		19	
20	Farm income or (loss) (attach Schedule F (Form 1040))		20	
21	Unemployment compensation (insurance) (see page 7 of Instructions)		21	
22	Other income (list type and amount—see page 7 of Instructions)		22	
23	Add lines 8, 9a, 10–16, 17b, and 18b–22. **This is your total effectively connected income** ▶		23	

Adjustments

24	Reimbursed employee business expenses from Form 2106, line 13	24	▨	
25	IRA deduction (see pages 7 and 8 of Instructions)	25	▨	
26	Self-employed health insurance deduction, from worksheet on page 8	26	▨	
27	Keogh retirement plan and self-employed SEP deduction	27	▨	
28	Penalty on early withdrawal of savings	28	▨	
29	Scholarships and fellowships excluded	29	▨	
30	Add lines 24 through 29 (see Instructions). **These are your total adjustments** ▶		30	
31	Subtract line 30 from line 23. Enter here and on line 32. **This is your adjusted gross income** ▶		31	

Tax Computation

32	Amount from line 31 (adjusted gross income)		32
33	Enter **itemized deductions** (from page 3, Schedule A, line 10)		33
34	Subtract line 33 from line 32. Enter the result (if less than zero, enter zero)		34
35	Exemptions (see pages 4, 5, and 8 of Instructions)		35
	Caution: If someone (such as your parent) can claim you as a dependent, check here ▶ ☐		
16	**Taxable income.** Subtract line 35 from line 34. Enter the result (if less than zero, enter zero)		36
	Caution: If under age 14 and you have more than $1,000 of investment income, check here ▶ ☐ and see page 8 to see if you have to use Form 8615 to figure your tax		
7	Enter tax. Check if from: ☐ Tax Table, ☐ Tax Rate Schedules, or ☐ Form 8615		37
1	Additional taxes (see page 8). Check if from: ☐ Form 4970 ☐ Form 4972		38
3	Add lines 37 and 38. Enter the total ▶		39

Credits

4	Credit for child and dependent care expenses (attach Form 2441)	40	
4	Foreign tax credit (attach Form 1116)	41	
4:	General business credit. Check if from: ☐ Form 3800 or ☐ Form (specify) ________	42	
43	Credit for prior year minimum tax (attach Form 8801)	43	
44	Add lines 40 through 43. Enter the total		44
45	Subtract line 44 from line 39. Enter the result (if less than zero, enter zero) ▶		45

Other Taxes

46	Alternative minimum tax (attach Form 6251)		46
47	Recapture taxes (see page 9). Check if from: ☐ Form 4255 ☐ Form 8611		47
48	Tax on income not effectively connected with a U.S. trade or business (from page 4, line 81)		48
49	Social security tax on tip income not reported to employer (attach Form 4137)		49
50	Tax on an IRA or a qualified retirement plan (attach Form 5329)		50
51	Transportation tax (see page 9 of Instructions)		51
52	Add lines 45 through 51. **This is your total tax** ▶		52

Payments

53	Federal income tax withheld (if any is from Form(s) 1099, check ▶ ☐)	53	
54	1988 estimated tax payments and amount applied from 1987 return	54	
55	Earned income credit (see page 10 of Instructions)	55	
56	Amount paid with Form 4868 (extension request)	56	
57	Excess social security tax and RRTA tax withheld (see page 10)	57	
58	Credit for Federal tax on fuels (attach Form 4136)	58	
59	Regulated investment company credit (attach Form 2439)	59	
60	Credit for amount paid with Form 1040C	60	
61	U.S. tax withheld at source:		
a	From page 4, line 78	61a	
b	By partnerships under Section 1446	61b	
62	U.S. tax withheld on dispositions of U.S. real property interests:		
a	From Form(s) 8288-A	62a	
b	From Form(s) 1042S	62b	
63	Add lines 53 through 62b. **These are your total payments** ▶		63

Refund or Amount You Owe

64	If line 63 is larger than line 52, enter amount **OVERPAID** ▶		64
65	Amount of line 64 to be **REFUNDED TO YOU** ▶		65
66	Amount of line 64 to be applied to your 1989 estimated tax ▶	66	
67	If line 52 is larger than line 63, enter **AMOUNT YOU OWE.** Attach check or money order for full amount payable to "Internal Revenue Service." Write your identifying or social security number and "1988 Form 1040NR" on it ▶		67
	Check ▶ ☐ if Form 2210 (2210F) is attached. See page 11. **Penalty:** $		

Please Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Your signature	Date	Your occupation in the United States

Paid Preparer's Use Only

Preparer's signature ▶	Date	Check if self-employed ☐	Preparer's social security no.
Firm's name (or yours if self-employed) and address ▶		E.I. No.	
		ZIP code	

Schedule A—Itemized Deductions (See pages 11 and 12 of the Instructions.)

07

State and Local Income Taxes				
1a State income taxes	1a			
b Local income taxes	1b			
2 Add the amounts on lines 1a and 1b. Enter the total here. **Total state and local income taxes** ▶			2	
Contributions You Made to U.S. Organizations				
3a Contributions by cash or check. (If you gave $3,000 or more to any one organization, show to whom you gave and how much you gave.) ▶	3a			
b Other than cash or check. (You must attach Form 8283 if over $500.)	3b			
c Carryover from prior year	3c			
4 Add the amounts on lines 3a through 3c. Enter the total here. **Total contributions** ▶			4	
5 **Casualty or theft loss(es)** (attach Form 4684) ▶			5	
6 **Moving expenses** (attach Form 3903) ▶			6	
Job Expenses and Most Other Miscellaneous Deductions (see page 12 for expenses to deduct here)				
7a Unreimbursed employee expenses—job travel, union dues, job education, etc. (You MUST attach Form 2106 in some cases. See Instructions.) ▶	7a			
b Other expenses (tax preparation fees, etc.). List type and amount.	7b			
c Add the amounts on lines 7a and 7b. Enter the total	7c			
d Multiply the amount on Form 1040NR, line 32 by 2% (.02). Enter the result	7d			
8 Subtract line 7d from line 7c. Enter the result (if zero or less, enter zero) ▶			8	
Other Miscellaneous Deductions				
9 Other (certain handicapped expenses, estate tax on income of decedent, etc.). List type and amount. ▶			9	
10 **Total itemized deductions.** Add the amounts on lines 2, 4, 5, 6, 8, and 9. **Enter the total here and on Form 1040NR, page 2, line 33** ▶			10	

Tax on Income Not Effectively Connected With a U.S. Trade or Business

(Please attach Forms 1042S, SSA-1042S, RRB-1042S, 1001, or similar form.)

Nature of income	U.S. tax withheld at source	Enter amount of income under the appropriate rate of tax (see pages 12 and 13 of Instructions)				
		(a) 10%	(b) 15%	(c) 30%	(d) Other (specify) ____ %	____ %
68 Dividends paid by:						
a U.S. corporations						
b Foreign corporations						
69 Interest:						
a Mortgage						
b Paid by foreign corporations						
c Other						
70 Industrial royalties (patents, trademarks, etc.)						
71 Motion picture or t.v. copyright royalties						
72 Other royalties (copyrights, recording, publishing, etc.)						
73 Real property income and natural resources royalties						
74 Pensions and annuities						
75 Social security benefits						
76 Gains (include capital gain from line 83 below)						
77 Other (specify) ▶						
78 Total tax withheld at source. **Enter here and on Form 1040NR, line 61a** ▶		▨	▨	▨	▨	▨
79 Total income (add lines 68 through 77 for each column)						
80 Tax on income (multiply income on line 79 by rate of tax at top of each column)						

81 Total tax on income not effectively connected with a U.S. trade or business (total of amounts on line 80). **Enter here and on Form 1040NR, line 48** ▶

Capital Gains and Losses From Sales or Exchanges of Property

Enter only the capital gains and losses from property sales or exchanges that are from sources within the U.S. and not effectively connected with a U.S. business. Do not include a gain or loss on disposing of a U.S. real property interest. Report these gains and losses on Schedule D (Form 1040).

Report property sales or exchanges that are effectively connected with a U.S. business on Schedule D (Form 1040), Form 4797, or both.

(a) Kind of property and description (if necessary, attach statement of descriptive details not shown below)	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Sales price	(e) Cost or other basis	(f) LOSS If column (e) is more than (d), subtract (d) from (e)	(g) GAIN If column (d) is more than (e), subtract (e) from (d)
82 Add columns (f) and (g)					( )	

83 Capital gain. Combine columns (f) and (g) of line 82. Enter the net gain here and on line 76 above (if zero or less, enter zero) ▶

Please Answer All Questions *(Enter "N/A" for questions that do not apply to you.)*

A What country issued your passport? ____________

B Were you ever a U.S. citizen? ☐ Yes ☐ No

C Give the purpose of your visit to the U.S. ____________

D Type of entry visa and visa number ____________ and type of current visa ____________

E Did you give up your permanent residence as an immigrant in the U.S. this year? ☐ Yes ☐ No

F Dates you entered and left the U.S. during the year. (Residents of Canada or Mexico entering and leaving the U.S. at frequent intervals, give name of country only.) ____________

G Give number of days (including vacation and non-work days) you were in the U.S. during: 1986 ________, 1987 ________, and 1988 ________

H If you are a resident of Canada, Mexico, Japan, or the Republic of Korea, or a U.S. National, did your spouse contribute to the support of any child claimed on Form 1040NR, line 7c? ☐ Yes ☐ No

If "Yes," state amount **$** ____________

If you were a resident of Japan or the Republic of Korea for any part of the tax year, enter your total foreign source income not effectively connected with a U.S. trade or business in the space below. This information is needed so that the exemption for your spouse and dependents residing in the United States (if applicable) may be allowed in accordance with Article 4 of the income tax treaties between the U.S. and Japan or the U.S. and the Republic of Korea.

Total foreign source income (not effectively connected with a U.S. trade or business) ____________

I Did you file a U.S. income tax return for any year before 1988? ☐ Yes ☐ No

If "Yes," give the latest year and form number: ____________

To which Internal Revenue Service Center was it sent? ____________

J To which Internal Revenue office did you pay any amounts claimed on Form 1040NR, lines 54, 56, and 60? ____________

K Have you excluded from the gross income shown on this return any amount, other than foreign source income not effectively connected with a U.S. trade or business? ☐ Yes ☐ No

If "Yes," attach a statement showing the amount (other than amounts shown in Question L), nature, and source of this income and the reason it was excluded from gross income.

L If you claimed the benefits of a U.S. income tax treaty with a foreign country, please give the following information:

Country ____________

Kind and amount of income exempt from or subject to a reduced rate of tax. Also identify the applicable tax treaty article: for 1988 ____________

for 1987 ____________

Were you subject to tax in that country on any of the income you claim is entitled to the treaty benefits? ☐ Yes ☐ No

Did you have a permanent establishment or fixed base (as defined by the tax treaty) in the U.S. at any time during 1988? ☐ Yes ☐ No

M If you file this return to report community income, give your spouse's name, address, and social security number. Also show the address of the Internal Revenue Service Center where his or her return was filed ____________

N If you file this return for a trust, does the trust have a U.S. business? ☐ Yes ☐ No

If "Yes," give name and address ____________

1988

Department of the Treasury
Internal Revenue Service

Instructions for Form 1040NR

U.S. Nonresident Alien Income Tax Return

(Section references are to the Internal Revenue Code, unless otherwise specified.)

General Instructions

Paperwork Reduction Act Notice

We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	6 hrs., 33 min.
Learning about the law or the form	1 hr., 44 min.
Preparing the form	3 hrs., 49 min.
Copying, assembling, and sending the form to IRS	1 hr., 17 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to the **Internal Revenue Service,** Washington, DC 20224, Attention: IRS Reports Clearance Officer, TR:FP; or the **Office of Management and Budget,** Paperwork Reduction Project, Washington DC, 20503.

Purpose of Form

Form 1040NR is used by all nonresident alien individuals, whether or not engaged in a trade or business within the United States, who file a U.S. tax return. It is also used for filing nonresident alien fiduciary (estate and trusts) returns.

Items to Note

Reduced Tax Rates. Most of the rates have been reduced. The tax table and tax rate schedules use the reduced rates—with a phase-out of the lowest rate for higher income individuals.

Increased Exemption Amount. For 1988 the deduction allowed for each exemption is $1,950 (up from $1,900).

Supplemental Medicare Premium for 1989. If you will be eligible for Medicare, Part A, benefits (hospital insurance) by June 30, 1989, you may have to pay a supplemental medicare premium. You will pay it with your tax return next year. For details, see **Pub. 934,** Supplemental Medicare Premium.

New Publication. Pub. 1, Your Rights as a Taxpayer, tells you about the many rights you have when you deal with the IRS. To ensure that you receive the quality of service you are entitled to, you should know about these rights.

Additional Information. If you need more information than these instructions give, our free publications may help you. **Pub. 519,** U.S. Tax Guide for Aliens, will be the most important, but these instructions refer to others you may find useful. The following publications may also help:

Pub. 525, Taxable and Nontaxable Income.

Pub. 529, Miscellaneous Deductions.

Pub. 552, Recordkeeping for Individuals and a List of Tax Publications.

Pub. 597, Information on the United States-Canada Income Tax Treaty.

Pub. 901, U.S. Tax Treaties.

Pub. 910, Guide to Free Tax Services.

These free publications and the forms and schedules you will need are available on request from the Internal Revenue Service. If you have a foreign address, send your order to: Forms Distribution Center, P.O. Box 25866, Richmond, VA 23289.

Alien Status

Alien Status Rules.—Specific rules for determining residency or nonresidency apply. Intent is not important in determining your residency status. You are considered a nonresident alien if you are neither a U.S. citizen nor a U.S. resident under either the **green card test** or the **substantial presence test**. You are also considered a nonresident alien if you otherwise meet the substantial presence test but you come under either of two exceptions to that test—the "exempt individual" exception or the "closer connection to foreign country" exception.

Resident Alien or Nonresident Alien.—Generally, you are considered a resident alien if you meet either the lawful permanent residency test (the "green card" test) or the substantial presence test for 1988 . You are considered a nonresident alien for the year if you are neither a U.S. citizen nor a U.S. resident under either of these tests.

- **Green card test.** You are a resident for tax purposes if you are a lawful permanent resident (immigrant) of the United States at any time during 1988.
- **Substantial presence test.** Alternatively, you are considered a U.S. resident if you meet the substantial presence test for 1988. Under this test, you must be physically present in the United States for at least:

a. 31 days during 1988, and

b. 183 days during the period 1988, 1987, and 1986, counting all the days of physical presence in 1988 but only ⅓ the number of days of presence in 1987 and only ⅙ the number of days in 1986.

Generally, you are treated as present in the United States on any day that you are physically present in the country at any time during the day.

The following are exceptions to the days of presence rules:

1. Exempt individual. You do not count days for which you are an exempt individual. In general, an exempt individual is an individual who is a:

a. foreign government or international organization related individual,

b. teacher or trainee,

c. student, or

d. professional athlete who is temporarily in the United States to compete in a charitable sports event.

2. Closer connection to foreign country. Even though you would otherwise meet the substantial presence test, you are not treated as having met that test for 1988 if you:

a. were present in the United States for fewer than 183 days during 1988 , and

b. establish that during 1988 you had a tax home in a foreign country and had a closer connection to that country than to the United States.

For details on resident and nonresident status, the tests for residence and the exceptions to them, see Pub. 519.

Tax Obligations of Legalized Aliens.—As an alien having income from the United States, you must pay U.S. taxes. This applies whether you are a legal U.S. resident or an alien undergoing legalization.

The immigration law provided an immigration amnesty; it did not provide a tax amnesty. Therefore, if you have not filed required tax returns for each of the years since you first came to the United States, you should do so as soon as possible.

Get the Form 1040 Instructions to see if you must file a return.

Who Must File

Use Form 1040NR if you:

- Were a nonresident alien engaged in a trade or business in the United States during 1988. You must file a return on Form 1040NR even if:

a. none of your income came from a trade or business conducted in the United States,

b. you have no income from U.S. sources, or

c. your income is exempt from U.S. tax.

In any of the above three cases, you do not need to complete the schedules for Form 1040NR. Instead, attach a list of the kinds of exclusions you claim and the amount of each.

- Were a nonresident alien not engaged in a trade or business in the United States during 1988 with income on which not all U.S. tax that you owe was withheld.
- Represent a deceased person who would have had to file Form 1040NR.
- Represent an estate or trust that would have had to file Form 1040NR.

Filing a Deceased Person's Return.—The spouse or personal representative must file the return for a deceased person who was required to file a return for 1988. A personal representative can be an executor, administrator, or anyone who is in charge of the deceased person's property.

Filing for an Estate or Trust.—If you are filing Form 1040NR as the fiduciary of a nonresident alien estate or trust, change the form to reflect the provisions of Subchapter J, Chapter 1, of the Internal Revenue Code. The U.S. consulate nearest you should have a copy of the Internal Revenue Code to which you can refer.

When To File

Period Covered.—This Form 1040NR covers calendar year 1988 and fiscal years that began in 1988.

Individuals.—If you were an employee and received wages subject to withholding, file Form 1040NR by the 15th day of the 4th month after your tax year ends. A return for the calendar year is due by April 15 of the next year.

If you did not receive wages as an employee subject to U.S. income tax withholding, file Form 1040NR by the 15th day of the 6th month after your tax year ends. A return for the calendar year is due by June 15 of the next year.

Estates and Trusts.—If you file for a nonresident alien estate or trust that has an office in the United States, file the return by the 15th day of the 4th month after the tax year ends. If you file for a nonresident alien estate or trust that does not have an office in the United States, file the return by the 15th day of the 6th month after the tax year ends.

Note: *If the regular due date for filing falls on a Saturday, Sunday, or legal holiday, use the next regular workday.*

If you know that you cannot file by the due date, you should ask for an extension using **Form 4868**, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return.

Note: *Form 4868 does not extend the time to pay your income tax. The tax is due by the regular due date of the return.*

Where To File

File Form 1040NR with the Internal Revenue Service Center, Philadelphia, PA 19255, U.S.A.

Election To Be Taxed As a Resident Alien

Under some circumstances you can elect to be taxed as a U.S. resident for the whole year. You can make this election if either of the following applies to you:

- You were a nonresident alien on the last day of the tax year, and your spouse was a U.S. citizen or resident alien on the last day of the tax year.
- You were a nonresident alien at the beginning of the tax year, but you were a resident alien on the last day of the tax year and your spouse was a U.S. citizen or resident alien on the last day of the tax year. (This also applies if both you and your spouse were nonresident aliens at the beginning of the tax year and both were resident aliens at the end of the tax year.)

If you elect in 1988 to be taxed as a U.S. resident, you and your spouse must file a joint return on Form 1040 or 1040A for 1988. Your worldwide income for the whole year will be taxed in accordance with U.S. tax laws. You must agree to keep the records, books, and other information needed to figure the tax. If you made the election in an earlier year, you may file a joint return or separate return on Form 1040 or 1040A for 1988. Your worldwide income for the whole year must be included whether you file a joint or separate return.

To make the election, you must file Form 1040 or 1040A as your income tax return and attach a statement. The statement that is needed is described in Pub. 519.

Dual-Status Taxpayers

Dual-Status Tax Year

Note: *If you make the election to be taxed as a resident alien (discussed earlier), the special instructions and restrictions discussed here do not apply.*

A dual-status year is one in which you change status between being a nonresident and resident alien. Different U.S. income tax rules apply to each status.

Most dual-status years are the years of arrival or departure. Before you arrive in the United States, you are a nonresident alien. After you arrive, you may be a resident or not, depending on the circumstances.

If you become a U.S. resident, you stay a resident until you leave the U.S. You may become a nonresident alien when you leave, if, after leaving (or after your last day of lawful permanent residency if you met the green card test) and for the remainder of the calendar year of your departure, you have a closer connection to a foreign country than to the United States, and, during the next calendar year, you are not a U.S. resident under either the green card test or the substantial presence test. (See Pub. 519.)

What To File for a Dual-Status Year

If you are a U.S. **resident** on the last day of the tax year, file your return on **Form 1040,** U.S. Individual Income Tax Return. Write "Dual-Status Return" across the top, and attach a statement to show your income for the part of the year you were a nonresident. You may use Form 1040NR as the statement; write "Statement" across the top.

If you are a **nonresident** on the last day of the tax year, file your return on Form 1040NR. Write "Dual-Status Return" across the top, and attach a statement to show your income for the part of the year you were a U.S. resident. You may use Form 1040 as the statement; write "Statement" across the top.

Statements.—Any statement you file with your return must have on it your name, address, and social security number (taxpayer identification number), but you need not sign the statement. Your signature on a return also applies to supporting statements and schedules.

When and Where To File for a Dual-Status Year

If you are a nonresident alien on the last day of your tax year, file your Form 1040NR and statement according to the instructions under **When To File** and **Where To File.** If you are a resident alien on the last day of your tax year, file your Form 1040 and statement according to the Form 1040 instructions.

Income Subject to Tax for Dual-Status Year

As a dual-status alien not filing a joint return, you are taxed on income from all sources for the part of the year you are a resident alien. Generally, you are taxed on income only from U.S. sources for the part of the year you are a nonresident alien. However, all income effectively connected with the conduct of a trade or business in the United States is taxable.

Income you receive as a dual-status taxpayer from sources outside the United States while a resident alien is taxable even if you become a nonresident alien after receiving it and before the close of the tax year. Conversely, income you receive from sources outside the United States while a nonresident alien is not taxable in most cases even if you become a resident alien after receiving it and before the close of the tax year. Income from U.S. sources is taxable whether you receive it while a nonresident alien or a resident alien.

Restrictions for Dual-Status Taxpayers

Standard Deduction.—You may not take the standard deduction.

Head of Household.—You may not use the *head of household* Tax Table column or Tax Rate Schedule.

Joint Return.—You may not file a joint return. However, see **Election To Be Taxed As a Resident Alien** on this page.

Tax Rates.—If you are married and a nonresident of the United States for all or part of the tax year and you do not make the election to be taxed as a resident alien as discussed on this page, you must use the Tax Table column or Tax Rate Schedule for *married filing separately* to figure your tax on income effectively connected with a U.S. trade or business. You may not use the *single* Tax Table column or Tax Rate Schedule.

Personal Exemptions.—As a dual-status taxpayer, you usually will be entitled to your own personal exemption. Subject to the general rules for qualification, you are allowed exemptions for your spouse and dependents in figuring taxable income for the part of the year you are a resident alien. The amount you may claim for these exemptions is limited to your taxable income (determined without regard to exemptions) for the part of the year you are a resident alien. You may not use exemptions (other than your own) to reduce taxable income to below zero for that period.

Special rules apply for exemptions for the part of the tax year a dual-status taxpayer is a nonresident alien if the taxpayer is a resident of Canada, Mexico, Japan, or the Republic of Korea, or is a U.S. National. (See Pub. 519.)

How To Figure Tax for Dual-Status Tax Year

When you figure your U.S. tax for a dual-status year, you are subject to different rules for the part of the year you are a resident and the part of the year you are a nonresident.

All income for the period of residence and all income that is effectively connected with a trade or business in the United States for the period of nonresidence, after allowable deductions, is added and taxed at the same rates that apply to U.S. citizens and residents. Use the Tax Table or Tax Rate Schedules found later in these instructions. Income that is not effectively connected with a trade or business in the United States for the period of nonresidence is subject to the flat 30% rate or lower treaty rate. No deductions are allowed against this income.

If you are a resident alien on the last day of the tax year, add to the tax from the Tax Table or the Tax Rate Schedules the tax on the noneffectively connected income. Enter the total tax on Form 1040, line 38. To the left of line 38 show the two amounts. If you are filing Form 1040NR, enter the tax from the Tax Table or Tax Rate Schedules on line 37 and the tax on the noneffectively connected income on line 48 of Form 1040NR.

Credits.—You are allowed a credit against your U.S. income tax liability for certain taxes that you paid, that you are considered to have paid, or that were withheld from your income. These include:

1. The credit for tax withheld from wages earned in the United States and the credit for taxes withheld at the source from various items of income from U.S. sources other than wages. This includes U.S. tax withheld on dispositions of U.S. real property interests.

When filing Form 1040, show the total tax withheld on line 54. Enter amounts from the attached statement (Form 1040NR, lines 53, 61a, 61b, 62a, and 62b) to the left of line 54 and identify and include in the amount on line 54.

When filing Form 1040NR, show the total tax withheld on lines 53, 61a, 61b, 62a, and 62b. Enter the amount from the attached statement (Form 1040, line 54) to the left of line 53 and identify and include in the amount on line 53.

2. The credit for tax paid with **Form 1040-ES,** Estimated Tax for Individuals, or **Form 1040-ES (NR),** U.S. Estimated Tax for Nonresident Alien Individuals.

3. The credit for tax paid with **Form 1040C,** U.S. Departing Alien Income Tax Return, at the time of departure from the United States. When filing Form 1040, include the tax paid with the total payments on line 61. Identify the payment in the area to the left of the entry.

As a dual-status alien, you generally may claim tax credits using the same rules that apply to resident aliens. Certain restrictions that may apply are discussed here, along with a brief explanation of credits often claimed by individuals.

Credit for the Elderly or the Disabled.—You must be a U.S. citizen or resident to claim this credit. You may not claim the credit if you were a nonresident alien at any time during your tax year.

Foreign Tax Credit.—If you have paid or are liable for the payment of income tax to a foreign country on income from foreign sources, you may be able to claim a credit for the foreign taxes.

See **Pub. 514,** Foreign Tax Credit for Individuals.

Credit for Child and Dependent Care Expenses.—If you paid someone to care for your dependent who is under 15, or your disabled dependent or disabled spouse so you could work or look for work, you may be able to take a tax credit.

For more information, get **Pub. 503,** Child and Dependent Care Credit.

How To Report Income on Form 1040NR

Community Income.—If either you or your spouse, or both you and your spouse, are nonresident aliens, and you had community income during the year, treat the community income as provided by the applicable community property laws except as follows:

- Earned income of a spouse, other than trade or business or partnership distributive share income. Treat this income as received by the spouse whose services produced it and report it on that spouse's separate return.
- Trade or business income, other than partnership income. Treat this income as received by the husband unless the wife exercises substantially all of the management over the trade or business.
- Partnership income (or loss) received from a trade or business carried on by the partnership. Treat this income (or loss) as received by the spouse who is the partner and report it on the return of that spouse.
- Income derived from the separate property of one spouse that is not earned income, trade or business income, or partnership distributive share income. Treat this income as received by the spouse with the separate property and report it on that spouse's separate return.

See **Pub. 555,** Community Property and the Federal Income Tax, for more information.

Kinds of Income.—You must divide your income for the tax year into the following three categories:

1. Income effectively connected with a U.S. trade or business. This income is taxed at the same rates that apply to U.S. citizens. Report it on lines 8 through 22. Pub. 519 describes this income in greater detail.

2. U.S. income not effectively connected with a U.S. trade or business. This income is taxed at 30% unless a treaty between your country and the United States has set a lower rate that applies to you. Report this income on page 4 and figure the tax on it. Then report the tax on line 48. Pub. 519 describes this income more fully.

Note: *Use line 51 to report the 4% tax on U.S. sourced gross transportation income.*

3. Income exempt from U.S. tax. Answer questions K and L on page 5.

Dispositions of U.S. Real Property Interests

Gain or loss on the disposition of a U.S. real property interest by a nonresident alien individual is treated as if the alien individual were engaged in a trade or business in the United States and as if the gain or loss were effectively connected with the conduct of that trade or business in the United States. See Code section 897 and the regulations thereunder.

Losses from such dispositions to be taken into account are limited to losses incurred in a trade or business, losses from transactions entered into for profit, and casualty or theft losses.

Report gains and losses on the disposition of U.S. real property interests on **Schedule D (Form 1040)** and Form 1040NR, line 14. Also, net gains are subject to an alternative minimum tax. See the instructions for line 46.

The nonrecognition rules (not recognizing gain or loss) apply only when a U.S. real property interest is exchanged for an interest the sale of which would be subject to U.S. tax.

Money and the fair market value of property received in exchange for an interest in a partnership, trust, or estate, will, to the extent attributable to a U.S. real property interest held by the partnership, trust, or estate, be considered as received from the sale or exchange of the U.S. real property interest.

Gains or losses from the disposition of a U.S. real property interest by a partnership, trust, or estate generally are passed through and must be reported on the income tax return of each partner or beneficiary.

U.S. Real Property Interests.—A U.S. real property interest is any interest (other than an interest solely as a creditor) in real property located in the United States or the Virgin Islands, or any interest in a domestic corporation that is a U.S. real property holding corporation. Generally, real property includes:

1. **Land and unsevered natural products of the land**, such as growing crops and timber, and mines, wells, and other natural deposits.
2. **Improvements on land**, including buildings, other inherently permanent structures, and structural components of these.
3. **Personal property associated with the use of real property**, such as farming, forestry, mining, or construction equipment, or property used in lodging facilities or rented office space. See Regulations section 1.897-1(b)(4).

A corporation is a U.S. real property holding corporation if the fair market value of its U.S. real property interests equals or exceeds 50% of the fair market value of its U.S. real property interests, interests in foreign real property, plus any other of its assets which are used or held for use in a trade or business.

For special rules that apply only for purposes of determining whether a corporation is a U.S. real property holding corporation, see Code sections 897(c)(4) and (5).

An interest in a foreign corporation is a U.S. real property interest only if the foreign corporation has elected under Code section 897(i) to be treated as a domestic corporation.

However, an interest in a domestic corporation is not a U.S. real property interest if at the date of disposition of the interest in the corporation: (a) the corporation did not hold any U.S. real property interests, and (b) all the U.S. real property interests held by the corporation during the shorter of the periods described in Code section 897(c)(1)(A)(ii):

1. were disposed of in a transaction in which all gain realized was recognized; or

2. ceased to be U.S. real property interests because of the application of Code section 897(c)(1)(B) to one or more other corporations.

Stock Regularly Traded.—If any class of stock of a domestic corporation is regularly traded on an established securities market, stock of this class is a U.S. real property interest only for a person who held more than 5% of that class of stock at any time during the shorter of the periods described in Code section 897(c)(1)(A)(ii).

Code section 897(h) provides special rules for a real estate investment trust.

Virgin Islands Real Estate.—Gain or loss on dispositions of real property interests located in the U.S. Virgin Islands will be reported on returns filed with the Virgin Islands tax authorities. Tax on these dispositions will also be paid to the Virgin Islands tax authorities.

Tax Withholding—U.S. Real Property.—If you dispose of a U.S. real property interest, the buyer may be required to withhold tax. Include any tax withheld on line [illegible] or 62b of Form 1040NR. For more information, see Pub. 519 and **Form 8288,** U.S. Withholding Tax Return for Dispositions by Foreign Persons of U.S. Real Property Interests.

Income You May Elect To Treat as Effectively Connected With a U.S. Trade or Business

You may elect to treat some items of income as effectively connected with a U.S. trade or business.

The election applies to all income from real property or an interest in real property located in the United States and held for the production of income. Income from real property includes:

(a) Rental income from real property.

(b) Profit from disposing of U.S. timber, coal, or iron ore while keeping a share in it.

(c) Rents and royalties from mines, oil or gas wells, or other natural resources.

It does not apply to the disposition of an interest in U.S. real property discussed on page 3.

To make the election, attach a statement to your return for the year of the election. Include in your statement:

(a) That you are making the election.

(b) A schedule of all U.S. real property or any interest in real property (including location). (Give the legal identification of U.S. timber, coal, or iron ore in which you have an interest.)

(c) The extent of your interest in the real property.

(d) A description of any substantial improvements on such real property.

(e) Your income from the property.

(f) The dates you owned it.

(g) Whether the election is under Code section 871(d) or treaty.

(h) Details of any previous elections and revocations of the real property elections.

Foreign Income Taxed by U.S.

You may be required to report some income from foreign sources on your U.S. return, if it is effectively connected with a U.S. trade or business. For this foreign income to be treated as effectively connected with a U.S. trade or business, you must have a fixed place of business in the United States. The income, gain, or loss must result directly from the usual business activities of your U.S. office. The kinds of foreign income that may be taxed at the graduated rates are:

(a) Interest, dividends, gain or loss from transactions of stocks, bonds, notes, or other debt obligations from the U.S. business.

(b) Income from foreign sales made by your U.S. office.

(c) Rents or royalties you received for the use of intangible property located outside the United States or the privilege of using it. Such property includes patents, copyrights, trademarks, and franchises (including gain or loss from the sale or exchange of such property).

Specific Instructions—

We have provided specific instructions for most of the lines on the form. Lines that do not appear in these instructions are self-explanatory.

Page 1

Items in Heading

Name.—If you file Form 1040NR as a fiduciary, enter the estate's or trust's name in the heading, and attach a statement giving your name, title, address, and relationship to the trust (such as trustee or nominee). Also give the name and address of any U.S. grantors and beneficiaries.

P. O. Box.—If your post office does not deliver mail to your street address and you have a P.O. box, enter your P.O. box number on the line for your present home address instead of your street address.

Identifying Number.—If you have a social security number or you are required to get a social security number, you must use it when an identifying number is required for federal tax purposes. For an estate or trust, use its employer identification number. In some cases, if you do not have a social security number, you may use an IRS-issued identifying number. If you do not have a social security number and are not otherwise required to get one, you should apply for an IRS-issued identifying number by writing to the IRS Service Center, Philadelphia, PA 19255. If an application has been made for a number but it has not been received, write "TIN applied for" on your tax return.

Filing Status and Exemptions for Individuals

(Exemptions for estates and trusts are described in the instructions for line 35.)

Filing Status.—Check only one of the boxes on lines 1 through 6. Your tax rate depends on the box you check. Before you decide which box to check, read the following explanations.

Were You Single or Married?—If you were married on December 31, consider yourself married for the whole year. If you were single, divorced, or legally separated under a decree of divorce or separate maintenance on December 31, consider yourself single for the whole year. If you meet the tests described under **Married Persons Who Live Apart,** you may consider yourself single for the whole year.

If your spouse died in 1988, consider yourself married to that spouse for the whole year, unless you remarried before the end of 1988.

Lines 1 and 2—Single Residents of Mexico and Canada, Single U.S. Nationals (American Samoans), and Other Single Nonresident Aliens.—Generally, you should check one of the boxes on line 1 or 2 if you were single. If you check the box on line 1, you can claim exemptions for your children and other dependents on the same terms as U.S. citizens. See **Pub. 501,** Exemptions, Standard Deduction, and Filing Information, for more information.

If you are a resident of Japan or the Republic of Korea, you may claim one exemption each for yourself and for any of your children who lived with you in the United States at any time during 1988. The amount you actually deduct for exemptions is based on a proportion of your income. Pub. 519 explains how to figure the amount you should deduct.

Married Persons Who Live Apart.—Some married persons who have a child and who do not live with their spouse may file as single and take advantage of lower tax rates. Both you and your spouse can file this way if both meet the tests.

If you meet **ALL 4** tests below and are a married resident of Canada or Mexico, or a U.S. national, check the box on line 1 and file as a single person. If you meet the tests and are a married resident of Japan or the Republic of Korea, check the box on line 2 and file as a single person.

(1) You file a separate return from your spouse.

(2) You paid more than half the cost to keep up your home in 1988.

(3) Your spouse did not live with you at any time during the last 6 months of 1988.

(4) For over 6 months of 1988, your home was the principal home of your child or stepchild whom:

a. you can claim as a dependent, **OR**

b. you could claim as a dependent except that the child's other parent will claim the child as a dependent under the rules explained on page 5 for **Children of Divorced or Separated Parents.** Write this child's name on line 7c, but do not include this child in the total lines to the right of line 7c.

Lines 3 and 4—Married Residents of Canada, Mexico, Japan, or the Republic of Korea, and Married U.S. Nationals.—If your spouse died during 1988, you can still file as married and claim an exemption for your spouse.

If you are a married resident of Mexico or Canada, or a married U.S. national (line 3), you can take the exemption for yourself, plus another one for your spouse if your spouse had no gross income for U.S. tax purposes and was not another U.S. taxpayer's dependent.

You can claim exemptions for your children and other dependents on the same terms as U.S. citizens. See **Pub. 501** for more details.

If you are a married resident of Japan or the Republic of Korea (line 4), you may claim one exemption each for yourself, and for your spouse and any of your children who lived with you in the United States at any time during 1988. You may claim your spouse's exemption only if your spouse had no income from United States sources and is not another taxpayer's dependent. The amount you actually deduct for exemptions is based on a proportion of your income. Pub. 519 explains how to figure the amount you should deduct.

Line 6—Qualifying Widow(er) With Dependent Child.—You can claim this status, which offers some tax benefits, if you met **ALL** the following tests for 1988.

(a) You were a resident of Mexico, Canada, Japan, or the Republic of Korea, or a U.S. national.

(b) Your spouse died in 1986 or 1987 and you did not remarry before the end of 1988.

(c) Your dependent child, stepchild, adopted child, or foster child lived with you (except for temporary absences, such as for vacation or school).

(d) You paid over half the cost of keeping up the home for this child for the whole year.

(e) You were a resident alien or U.S. citizen the year your spouse died. This refers to your actual status, not the election that some nonresident aliens can make to be taxed as U.S. residents.

(f) You could have filed a joint return with your spouse for the year your spouse died. Whether you actually filed jointly does not matter.

If you met these tests for 1988, check the box on line 6 for *Qualifying widow(er) with dependent child* and show the year your spouse died in the space provided. **Do not** claim an exemption for your spouse.

Exemptions.—Exemptions are amounts you can deduct from income connected with a U.S. trade or business. Generally, you can always take an exemption for yourself. However, if you can be claimed as a dependent on another person's U.S. tax return (such as your parent's return), you cannot take an exemption for yourself. If you are a resident of Mexico, Canada, Japan, or the Republic of Korea, or a U.S. National (American Samoans), you may be able to take other exemptions as well. See Pub. 519 for details.

Line 7c

Children and Other Dependents

Note: *These exemptions may be claimed only by residents of Canada, Mexico, Japan, the Republic of Korea, and U.S. Nationals.*

You can take an exemption for each person who is your dependent. Enter the full names and other information for your dependent children and other dependents. If you have more than five dependents, show the information requested in columns (1) through (5) for each of those dependents on an attached statement. When entering the total number of dependents on the lines to the right of line 7c, be sure to include these dependents.

Column (2). If your dependent listed in column (1) was under age 5 on December 31, 1988, enter a check mark in column (2).

Column (3). If your dependent was age 5 or older on December 31, 1988, you must enter his or her social security number. If you don't or if the number entered is incorrect, you may have to pay a penalty.

If your dependent does not have a social security number, a number may be obtained by filing **Form SS-5** with a Social Security Administration office. If your dependent lives in Canada or Mexico, see Pub. 501 for details on how to get a social security number for this dependent. If your dependent does not have a number by the time you are ready to file your return, apply for one and enter "Applied for" in column (3).

Column (5). If your dependent lived with you in 1988 except for temporary absences, such as for vacation or school, enter "12" in column (5). Also enter "12" in column (5) if your dependent was born or died in 1988. Otherwise, enter the number of months that your dependent actually lived with you during 1988.

Children Who Didn't Live With You. If you are claiming a child under the rules for **Children of Divorced or Separated Parents,** enter the total number of such children on the line to the right of line 7c labeled "No. of your children on 7c who didn't live with you due to divorce or separation." You must either:

- check the box on line 7d for pre-1985 agreements if you have such an agreement that states you can claim the child as your dependant, **OR**
- attach **Form 8332,** Release of Claim to Exemption for Child of Divorced or Separated Parents, or similar statement. If your divorce decree or separation agreement went into effect after 1984 and it states that you can claim the child as your dependent, you may attach certain pages from the decreee or agreement instead of Form 8332. See **Pub. 504,** Tax information for Divorced or Separated Individuals, for details.

Enter the total number of dependent children who did not live with you for other reasons on the line labeled "No. of other dependents listed on 7c."

Children of Divorced or Separated Parents.—The parent who has custody of a child for most of the year (the custodial parent) can generally take the exemption for that child if the child's parents together paid more than half of the child's support. This general rule also applies to parents who did not live together at any time during the last 6 months of the year. But the parent who does not have custody, or who has the child for the shorter time (the noncustodial parent), may take the exemption if either **(a)** or **(b)** below, applies.

(a) The custodial parent signs **Form 8332,** or similar statement, agreeing not to claim an exemption for the child in 1988.

(b) A decree of divorce or separate maintenance (or a written agreement) that was in effect before 1985 states that the noncustodial parent can take the exemption and he or she gave at least $600 for the child's support in 1988. (This rule does not apply if the decree or agreement was modified after 1984 to specify that the noncustodial parent cannot claim the exemption.)

Rounding Off to Whole Dollars

You may round off cents to the nearest whole dollar on your return and schedules. But if you do round off, do so for all amounts. You can drop amounts under 50 cents. Increase amounts from 50 to 99 cents to the next dollar. For example, $1.39 becomes $1 and $2.50 becomes $3.

Lines 8 Through 22

Income Effectively Connected With U.S. Trade or Business

Pub. 519 explains how income is classified and what income you should report here. The instructions for this section assume that you have decided that the income involved is effectively connected with a U.S. trade or business in which you are engaged. But your decision may not be easy. "Interest," for example, may be effectively connected with a U.S. trade or business, it may not be, or it may be tax exempt. The tax status of income also depends on its source. Under some circumstances, items of income from foreign sources are treated as effectively connected with a U.S. trade or business. Other items are reportable as effectively connected or not effectively connected with a U.S. trade or business, depending on how you elect to treat them.

Line 8—Wages, Salaries, Tips, Etc.—Enter the total of all wages, salaries, fringe benefits, fees, commissions, tips, bonuses, supplemental unemployment benefits and other amounts you were paid before taxes, insurance, etc., were taken out. For details on allocated tips, get **Pub. 531,** Reporting Income From Tips.

Include in this total:

- The amount that should be shown in box 10 on **Form W-2**. Report all wages, salaries, and tips you received, even if you do not have a Form W-2.
- Tips received that you did not report to your employer. (Show any social security tax due on these tips on line 49—see the line 49 instructions.)

Note: *Any tip allocation amount shown on Form W-2 may be added to your gross income unless you are able to prove a lesser amount with adequate records.*

- Disability pensions if you have not reached the minimum retirement age set by your employer.

Note: *Except for those disability pensions mentioned above, pensions shown on* ***Form W-2P*** *(other than payments from an IRA) are reported on lines 18a and 18b of Form 1040NR. However, you must report this income on line 74 if you were not engaged in a trade or business in the U.S. in 1988. Payments from an IRA are reported on lines 17a and 17b.*

- Payments by insurance companies, etc., not included on Form W-2. If you receive sick pay or a disability payment that is effectively connected with your U.S. trade or business from anyone other than your employer, and it is not included in the wages shown on Form W-2, include it on line 8. Attach a statement showing the name and address of the payer and amount of sick pay or disability income.
- Fair market value of meals and living quarters if given by your employer as a matter of your choice and not for your employer's convenience. (Don't report the value of meals given you at work if they were provided for your employer's convenience. Also do not report the value of living quarters you had to accept on your employer's business premises as a condition of employment.)
- Strike and lockout benefits paid by a union from union dues. Include cash and the fair market value of goods received. Don't report benefits that were gifts.
- Any amount your employer paid for your moving expenses (including the value of services furnished in kind) that is not included in Box 10 on Form W-2.

Note: *You must include on line 8 all wages, salaries, etc., paid for your personal services, even if you signed over the income to a trust (including an IRA), another person, a corporation, or tax-exempt organization.*

If you want more information on reporting income received in the form of goods, property, meals, stock options, etc., get **Pub. 525,** Taxable and Nontaxable Income.

Fringe Benefits.—If you used an employer-provided highway motor vehicle for both personal and business use and your employer included 100% of the fair rental value of the vehicle in the wages, tips, and other compensation box (Box 10) of your W-2 form, you must use **Form 2106,** Employee Business Expenses, to claim a deduction for the business use of the vehicle. (The total fair rental value of the vehicle should be shown, by your employer, in Box 16a of your W-2 form or on a separate statement.) You must report on Form 1040NR, line 8, the total amount shown in Box 10 of your W-2 form. For more details, get Pub. 525.

Excess Salary Deferrals. If you choose to have your employer contribute part of your pay to a retirement plan, the Form W-2 you get from that employer should have the "Deferred compensation" box in Box 5 checked. The amount deferred should be shown in Box 16. The total amount that may be deferred for 1988 under **all** plans is generally limited to $7,313. Any amount deferred in excess of $7,313 must be reported on Form 1040NR, line 8. Amounts deferred under a tax-sheltered annuity plan may have a higher limit. Get **Pub. 571,** Tax-Sheltered Annuity Programs for Employees of Public Schools and Certain Tax-Exempt Organizations, for details.

Line 9a—Taxable Interest Income.—Enter the **TOTAL** taxable interest you received from assets effectively connected with a U.S. trade or business.

If you received interest not effectively connected with a U.S. trade or business, report it on page 4, unless it is tax exempt under a treaty. See **Pub. 901,** U.S. Tax Treaties. In addition, interest from a U.S. bank, savings and loan association, or similar institution, and from certain deposits with U.S. insurance companies is tax exempt if it is not effectively connected with a U.S. trade or business.

Interest that was credited in 1988 on deposits that you could not withdraw because of the bankruptcy or insolvency of the financial institution may not have to be included in your 1988 income. For details, get **Pub. 550,** Investment Income and Expenses.

For information on reporting Original Issue Discount (OID), get **Pub. 1212,** List of Originial Issue Discount Instruments.

Note: *Portfolio interest that you received as a nonresident alien on obligations issued after July 18, 1984, is exempt from the 30% tax. For more information, see Pub. 519.*

Line 9b—Tax-Exempt Interest Income.—If you received any tax-exempt interest income (such as interest on certain state and municipal bonds), that interest must be reported on your return. Enter the total tax-exempt interest you received in 1988 on line 9b. Also, report any exempt-interest dividends you received as a shareholder in a mutual fund or other regulated investment company. **Do not** include this interest in your total income on line 23.

Line 10—Dividend Income.— Enter your total dividends from assets effectively connected with a U.S. trade or business. Dividends include:

Ordinary dividends.—These are paid out of earnings and profits and are ordinary income. Any dividend you receive is an ordinary dividend unless the paying corporation tells you otherwise.

Capital gain distributions.—If you have other capital gains or losses, enter your capital gain distributions on **Schedule D (Form 1040).** If you don't need Schedule D to report any other gains or losses, enter your capital gain distributions on Form 1040NR, line 15.

Nontaxable distributions.—Some distributions are nontaxable because they are a return of your cost. They will not be taxed until you recover your cost. You must reduce your cost (or other basis) by these distributions. After you get back all of your cost (or other basis), you must report these distributions as capital gains.

Line 11—Taxable Refunds of State and Local Income Taxes.—If you received a refund (or credit or offset) of state or local income taxes in 1988 that you paid and deducted before 1988, you may have to report all or part of this amount as income if your itemized deductions (on Form 1040NR or **Schedule A (Form 1040)**) for state and local income taxes in the year you paid the taxes resulted in a tax benefit. You may receive **Form 1099-G,** or similar statement, showing the refund.

Do not report the refund as income if it was for a tax you paid in a year for which you did not itemize deductions on Form 1040NR or Schedule A (Form 1040).

If you need help in figuring this amount, please get Pub. 525.

If, on Schedule A (Form 1040NR), page 3, you deduct state or local income taxes you paid in 1988, do not reduce that deduction by any tax refund for an earlier year. However, if the refund is for 1987 and you made a 1987 estimated state income tax payment in 1988, see Pub. 525.

Line 12—Scholarships and Fellowships.— If you were a degree candidate and the scholarship was granted after August 16, 1986, amounts you used for expenses other than tuition and course-related expenses are generally taxable. For example, amounts spent on room, board, and travel are generally taxable. If the scholarship was granted on or before August 16, 1986, or if you were not a candidate for a degree, get Pub. 519 to see how much is taxable. Also amounts received as a scholarship that are payment for teaching, research, or other services are taxable even if the services were required to get the grant. Report the total here and show any nontaxable part on line 29. Attach a statement that shows: the amount of your grant, the dates it covers, the grantor's name, expenses the grant covers, and the conditions under which it was given to you. Explain how much was taxable, how much was tax exempt, and why.

Line 13—Business Income or (Loss).—Enter the income or (loss) from your own trade or business in the United States. Include any income you received as a dealer in stocks, securities, and commodities through your U.S. office. If you deal in these items through an independent agent, such as a U.S. broker, custodian, or commissioned agent, your income may not be considered effectively connected with a U.S. business. For general information on business income or loss, please see the instructions for **Schedule C (Form 1040),** and get **Pub. 334,** Tax Guide for Small Business.

Line 14—Capital Gain or (Loss).—Please see the instructions for **Schedule D (Form 1040).** Enter the effectively connected gain or (loss) from Schedule D. You may need **Pub. 544,** Sales and Other Dispositions of Assets.

Gains and losses from disposing of U.S. real property interests are taxed as if you are engaged in a U.S. trade or business, and the gain or loss is treated as effectively connected with that trade or business. See **Dispositions of U. S. Real Property Interests** on page 3.

Line 15—Capital Gain Distributions.—If you do not need Schedule D (Form 1040) for other capital transactions, enter your capital gain distributions on line 15.

If you have other capital gains or losses, include these distributions on Schedule D (Form 1040).

Line 16—Other Gains or (Losses).—If you sold or exchanged assets used in a U.S. trade or business, see the instructions for **Form 4797.** Enter the ordinary gain or (loss) from Part II of Form 4797. You may also need Pub. 544.

Lines 17a and 17b—IRA Distributions.—Use lines 17a and 17b to report effectively connected individual retirement arrangement (IRA) distributions you received. Include rollovers from one IRA to another IRA, but not rollovers from qualified employers' plans to an IRA.

Generally, you will receive either a **Form 1099-R** or a **Form W-2P** showing the amount of your distribution. If the distribution is fully taxable, enter it on line 17b; no entry is required on line 17a. But if this income is not effectively connected with your U.S. trade or business, report it on line 74 of Form 1040NR.

For more details, including rollover distributions, get **Pub. 590,** Individual Retirement Arrangements (IRAs).

Caution: *If you received a premature or excess distribution, you may owe additional tax. Get **Form 5329.***

Lines 18a and 18b—Pensions and Annuities.—Use lines 18a and 18b to report effectively connected pension and annuity income. Also, use these lines to report distributions from profit-sharing plans, retirement plans, employee-savings plans, and rollovers from one qualified employer's plan to another; or to an IRA.

In general, you should receive a **Form W-2P** showing the amount of your pension or annuity. **Do not** use lines 18a and 18b to report social security or railroad retirement benefits shown on Forms SSA-1042S and RRB-1042S. Instead, see the instructions on page 13.

Fully taxable pensions and annuities.—Your pension or annuity payments are fully taxable if:

- you did not contribute to the cost of your pension or annuity, or
- you got back tax free your entire cost before 1988.

Fully taxable pensions and annuities also include military retirement pay shown on Form W-2P, and any taxable railroad retirement benefits from Box 12 of **Form RRB-W-2P.** If you received Form RRB-W-2P and an amount is shown in Box 13 of your form, see **Pub. 575,** Pension and Annuity Income, for information on how to report your benefits.

If your pension or annuity is fully taxable, enter it on line 18b; no entry is required on line 18a. However, if these benefits are not effectively connected with your U.S. trade or business, report them on line 74 of Form 1040NR.

Some annuities are tax exempt. See Code section 871(f).

Other pensions and annuities.—If your Form W-2P does not show the taxable part of your pension or annuity, you must figure the taxable amount as explained below.

If your annuity starting date was **after** July 1, 1986, you usually must use the General Rule explained in Pub. 575 and **Pub. 721,** Comprehensive Tax Guide to U.S. Civil Service Retirement Benefits, to figure the taxable part of your pension or annuity. If you submit a ruling request before the due date of your return (including extensions), IRS will figure the taxable part for you; get Pub. 575 or 721 for details. Your annuity starting date is the later of the first day of the first period for which you receive a payment from the plan or the date on which the plan's obligations became fixed. In some cases, you may be able to use a simpler method to figure the taxable part of your pension or annuity. See Pub. 575 or 721 for details.

Enter the amount you received this year on line 18a. Enter the taxable part on line 18b.

If your annuity starting date was **before** July 2, 1986, and you meet **both** of the following requirements, complete the worksheet below to figure the taxable part, if any, of your pension or annuity.

1. Both you and your employer contributed to the pension or annuity.

2. The total amount you expected to receive within 36 months from the date of your first annuity payment equaled or exceeded your full cost. (Your cost includes amounts you contributed and amounts your employer contributed that you reported as income.)

If you **do not** meet **BOTH** of the above requirements, see Pub. 575 or 721 to figure the taxable part.

Pension and Annuity Worksheet
(Keep for your records)

1a Enter your cost . . . . ________
b Cost recovered in prior years. . . . ________
c Subtract line 1b from line 1a. . . . ________
2 Amount received this year. Also enter this amount on Form 1040NR, line 18a. . . . . ________
3 Enter amount from line 1c above ________
4 **Taxable amount.** Subtract line 3 from line 2. Enter the result (but not less than zero). Also enter this amount on Form 1040NR, line 18b . . . . ________

Note: *If you had more than one pension or annuity that is not fully taxable, figure the taxable amounts of each separately. Enter the total of the taxable amounts on Form 1040NR, line 18b.*

Caution: *Certain transactions, such as loans against your interest in a qualified plan, may be treated as taxable distributions and may also be subject to penalties. For details, see Pub. 575.*

For details on rollovers, including distributions under qualified domestic relations orders, get Pub. 575.

Lump-Sum Distributions.—If you received a lump-sum distribution from a profit-sharing or retirement plan, you should receive a **Form 1099-R** showing the amount of the distribution. The total of the ordinary income part and the capital gain part should be entered on line 18b; no entry is required on line 18a. However, you may pay less tax on this distribution if you were age 50 or older on January 1, 1986, and you meet certain other conditions. For details, get **Form 4972**, Tax on Lump-Sum Distributions. If you use Form 4972 to figure the tax on any part of your distribution, do not include that part of the distribution on line 18a or 18b.

Caution: *If you received a premature or excess distribution, you may owe additional tax. For details, get **Form 5329.***

Line 19—Rents, Royalties, Partnerships, Estates, Trusts, etc.—Please see the instructions for **Schedule E (Form 1040).** Enter the income or (loss) that is effectively connected with your U.S. business from Schedule E.

Line 20—Farm Income or (Loss).— See the instructions for **Schedule F (Form 1040)** and also get **Pub. 225,** Farmer's Tax Guide. Enter the income or (loss) from Schedule F.

Line 21—Unemployment Compensation.—Unemployment compensation (insurance) is fully taxable. By January 31, 1989, you should receive a **Form 1099-G,** Statement for Recipients of Certain Government Payments, showing the total unemployment compensation paid to you during 1988.

Use line 21 to report the unemployment compensation you received. If you received an overpayment of unemployment compensation in 1988 and you repaid it in 1988, subtract the amount you repaid from the total amount you received and enter the result on line 21. Also write "repayment" and the amount you repaid on the line to the left of line 21.

Note: *Supplemental unemployment benefits from a company-financed supplemental unemployment benefit fund are wages. Report these benefits on Form 1040NR, line 8.*

Line 22—Other Income.—Use line 22 to report any income effectively connected with your business that you cannot find a place for on your return or other schedules. List the type and amount of income. If necessary, show the required information on an attached statement. Some examples of other income are:

- Amounts recovered on bad debts that you deducted in an earlier year.
- Repayments of expenses that you deducted in an earlier year if they reduced your tax.

For more information, see **Miscellaneous Taxable Income,** in **Pub. 525,** Taxable and Nontaxable Income.

Net operating loss. If you had a net operating loss in an earlier year to carry forward to 1988, enter it as a minus figure on line 22. Attach a statement showing how you figured the amount. See **Pub. 536**, Net Operating Losses, for more details.

Report other income on page 4 if not effectively connected with a U.S. trade or business.

Lines 24 through 29

Adjustments

Adjustments are amounts you can subtract from your income effectively connected with a U.S. trade or business.

Line 24—Reimbursed Employee Business Expenses.—Use line 24 to deduct those business expenses for which your employer (or a third party) paid or reimbursed you. Deduct your unreimbursed expenses on Schdule A (Form 1040NR), line 7a or 7b, whichever applies. You must complete and attach **Form 2106**, Employee Business Expenses, to figure your deduction.

Exception: Do not complete Form 2106 if: (1) you accounted to your employer for your expenses by means of an account book, diary, or similar statement, (2) your expenses equaled your reimbursement, and (3) the reimbursement was not included on your W-2 form. Do not deduct these expenses or report the reimbursement.

For more information, please get **Pub. 463,** Travel, Entertainment, and Gift Expenses, or **Pub. 917,** Business Use of a Car.

Performing Artists. If you worked in the performing arts for more than one employer, you may be able to deduct on line 24 your reimbursed and unreimbursed expenses related to that work. For details get **Pub. 529**, Miscellaneous Deductions.

Line 25—Individual Retirement Arrangement (IRA) Deduction.—Use line 25 to deduct contributions to your IRA.

Caution: *Your IRA deduction may be reduced or eliminated if you were covered by a retirement plan (qualified pension, profit-sharing, annuity, Keogh, SEP, etc.) at work or through self-employment. Earnings on contributions to your IRA are not taxed until they are distributed to you.*

Not Covered by a Retirement Plan. If you were not covered by a retirement plan during 1988, you can take a **full IRA deduction.** If you are married filing a separate return and you were not covered by a retirement plan but your spouse was, you are not considered to be covered by a retirement plan.

Covered by a Retirement Plan. Your Form W-2 should have the "Pension Plan" box in Box 5 checked if you were covered by your employer's plan. This box should be checked even if you are not vested in the plan. You are also covered by a plan if you are self-employed and have a Keogh retirement plan.

Get **Pub. 590,** Individual Retirement Arrangements (IRAs), and see pages 14 and 15 of the 1988 Instructions for Form 1040, for details on IRA deductions.

Line 26—**Self-Employed Health Insurance Deduction.**—If you were self-employed and had a net profit for the year, you may be able to deduct part of the amount paid for health insurance on behalf of yourself, your spouse, and dependents. However, you may not take the deduction if you were eligible to participate in any subsidized health plan maintained by your or your spouse's employer. In addition, if you had employees, you may not take the deduction unless you provided nondiscriminatory health insurance coverage to your employees. For more details, get **Pub. 535,** Business Expenses.

If you qualify to take the deduction, use the worksheet below to figure the deduction. However, if you claim a net operating loss deduction, use the worksheet in Pub. 535 instead of the one below to figure your deduction.

Worksheet (keep for your records)

1 Enter amount paid for health insurance for 1988 for you, your spouse, and dependents . . . ________

2 Percentage used to figure the deduction . . . . × .25

3 Multiply the amount on line 1 by the percentage on line 2. . . . ________

4 Enter your net profit from self-employment (from Schedule C and F (Form 1040), Schedule K-1 (Form 1065) and any other earned income*) minus any deduction you claim on Form 1040NR, line 27 . ________

5 Compare the amounts on lines 3 and 4. Enter the smaller of the two amounts here and on Form 1040NR, line 26 . . . . ________

***Earned income** includes net earnings and gains (other than capital gains) from the disposition, transfer, or licensing of property that you created.

Line 27—**Keogh Retirement Plan and Self-Employed SEP Deduction.**—

Caution: *You must be self-employed to claim the Keogh deduction. Sole proprietors and partners enter the allowable deduction for contributions to your Keogh plan and your SEP on line 27.*

There are two types of Keogh retirement plans:

- **Defined-contribution plan.**—This plan provides an individual account for each person in the plan. Benefits are based on the amount paid to each account.
- **Defined-benefit plan.**—The deduction for this type of plan is determined by the funds needed to give a specific benefit at retirement. Write "DB" on the line to the left of the amount if you deduct payments to a defined-benefit plan.

For more details, including limits on the amount you can deduct, get **Pub. 560,** Self-Employed Retirement Plans.

Line 28—Penalty on Early Withdrawal of Savings.—The **Form 1099-INT** or, if applicable, **Form 1099-OID** given to you by your bank or savings and loan association will show the amount of any penalty you were charged because you withdrew funds from your time savings deposit before its maturity. Enter this amount on line 28. (Be sure to include the interest income on Form 1040NR, line 9a.)

Line 29—Scholarships and Fellowships Excluded.—See the line 12 Instructions.

Line 30—Total Adjustments.—Add lines 24 through 29 and enter the total on line 30. Also, include in this total any of the following adjustments. (They must be connected with effectively connected income.)

Forestation/Reforestation Amortization. If you can claim a deduction for amortization of the costs of forestation or reforestation and you do not have to file Schedule C or F (Form 1040) for this activity, include your deduction in the total on line 30. Write "Reforestation" in the space to the left of the total.

Repayment of Sub-Pay Under the Trade Act of 1974. If you repaid supplemental unemployment benefits (sub-pay) that you previously reported in income because you became eligible for payments under the Trade Act of 1974, include the amount you repaid in 1988 in the total on line 30. Write "Sub-pay TRA" in the space to the left of the total. Or, you may be able to claim a credit against your tax instead. See Pub. 525 for more details.

Line 31—Adjusted Gross Income.— If line 31 is less than zero, you may have a net operating loss that you can carry to another tax year. If you carry the loss back to earlier years, see **Form 1045.** For more information, get Pub. 536.

Page 2

Lines 33 through 38

Tax Computation on Income Effectively Connected With a U.S. Trade or Business

Line 33—Itemized Deductions.—Enter total itemized deductions from Schedule A, page 3. The instructions on pages 11 and 12 explain how to figure this amount.

Line 35—Exemptions.—You can claim exemptions only to the extent of your income that is effectively connected with a U.S. trade or business.

If you file as an **individual,** use the following chart to find the amount to enter on line 35. If you claimed more than 10 exemptions, multiply $1,950 by the number of exemptions entered on line 7e. However, if you are a resident of Japan or the Republic of Korea, you must figure the exemptions for your spouse and children according to the proportion your U.S. income bears to your total income. For details, get Pub. 519.

If the number on Form 1040NR, line 7e, is:	On Form 1040NR, line 35, enter:
1	$1,950
2	3,900
3	5,850
4	7,800
5	9,750
6	11,700
7	13,650
8	15,600
9	17,550
10	19,500

If you file for an **estate**, enter $600 on line 35. If you are filing for a **trust** whose governing instrument requires it to distribute all its income currently, enter $300 on line 35. Any other trust is allowed an exemption of $100.

Line 37—Tax.—To figure your tax, use one of the following methods.

Tax Rate Schedules. You must use the Tax Rate Schedules to figure your tax if your taxable income is $50,000 or more, OR you file for an estate or trust. The Tax Rate Schedules include a 33% rate to cover the phase-out of the 15% tax rate for individuals and estates or trusts with taxable incomes above a certain amount. Individuals with even higher taxable incomes must use the worksheet below the Tax Rate Schedules to figure the phase-out of their deduction for personal exemptions.

Form 8615. Form 8615 must generally be used to figure the tax for any child who was under age 14 on January 1, 1989, and who had more than $1,000 of investment income that is effectively connected with a U.S. trade or business (such as taxable interest or dividends). However, if neither of the child's parents were alive on December 31, 1988, do not use Form 8615 to figure the child's tax.

Tax Table. If neither of the above conditions applies to you, you **MUST** use the Tax Table to find your tax. Be sure to use the correct column in the Tax Table. When you find the correct tax, enter that amount on line 37.

If you are a married resident of Canada, get Pub. 597, Information on the United States-Canada Income Tax Treaty.

Line 38—Additional Taxes.—Check the box(es) on line 38 to report any of the additional taxes listed below.

Form 4970, Tax on Accumulation Distribution of Trusts.

Form 4972, Tax on Lump-Sum Distributions.

Lines 40 through 44

Credits

Line 40—Credit for Child and Dependent Care Expenses.—You may be able to take a credit here for payments you made for child and disabled dependent care while you worked or looked for work.

The credit is allowed if you kept up a home that included a child under age 15 or your dependent who could not care for himself or herself. Use **Form 2441** to figure the credit.

Please see Form 2441 for more information, including special rules for divorced or separated parents and certain employment taxes for which you may be liable.

Line 41—Foreign Tax Credit.—Form 1116 shows how to figure a credit for payment of income tax to a foreign country. To take it, you must report income from foreign sources (see **Foreign Income Taxed by U.S.** on page 4). You also must have paid or owe foreign tax on that income. See Pub. 519.

Line 42—General Business Credit.— Complete line 42 if you can take any of the 5 credits listed below. Use the appropriate credit form (as described below) to figure the credit. If you have only one credit, enter on line 42 the amount of the credit from the form. Also, check the second box on line 42 and write in the form number for that credit.

If you have a credit carryforward or take two or more of these credits, you must also complete **Form 3800** to figure the total credit. Enter on line 42 the amount from Form 3800. Also be sure to check the box on line 42 for Form 3800.

Form 3468, Computation of Investment Credit. This credit was generally repealed for property placed in service after 1985. For exceptions, see Form 3468.

Form 5884, Jobs Credit. If you are a business employer who hires people who are members of special targeted groups, you may qualify for this credit. Use Form 5884 to figure the credit. Get **Pub. 572,** General Business Credit, for more details.

Form 6478, Credit for Alcohol Used as Fuel. If you sell straight alcohol (or an alcohol mixture) at retail or use it as fuel in your trade or business, you may be able to take a credit for the alcohol used as fuel. Use Form 6478 to figure the credit.

Form 6765, Credit for Increasing Research Activities. You may be able to take a credit for research and experimental expenditures paid or incurred in carrying on your trade or business. Use Form 6765 to figure the credit.

Form 8586, Low-Income Housing Credit, and Form 8609, Low-Income Housing Credit Allocation Certification. If you owned a building that was part of a low-income housing project, you may be able to take this credit. Use Form 8586 and Form 8609 to figure the credit.

Line 43—Credit for Prior Year Minimum Tax.—If you paid alternative minimum tax in 1987, you may be able to take this credit. Get Form 8801 to see if you qualify for the credit.

Line 44—Add amounts on lines 40 through 43 and enter the total on line 44. Also include in the total on line 44 any of the following credits.

Mortgage Interest Credit. You may be able to take a credit for part of the interest you paid on your home mortgage if you were issued a mortgage credit certificate by a state or local government under a qualified mortgage credit certificate program to buy, rehabilitate, or make improvements to your principal residence. You must complete and attach **Form 8396**, Mortgage Interest Credit, to figure the credit. Include the amount of the credit in your total for line 44. On the dotted line next to this total, write "MIC" (mortgage interest credit) and show the amount.

Credit for Fuel From a Nonconventional Source. A credit is allowed for the sale of qualified fuels produced from a nonconventional source. See Code section 29 for a definition of qualified fuels, provisions for figuring the credit, and other special rules. Attach a separate schedule showing how you figured the credit. Include the credit in the total for line 44. On the dotted line next to this total, write "FNS" and show the amount.

Lines 46 through 52

Other Taxes

Line 46—Alternative Minimum Tax.— You may be liable for the alternative minimum tax if your return includes any of the items listed below and your adjusted gross income added to those items totals more than:

- $40,000 if qualifying widow(er) with dependent child, or
- $30,000 if single, or
- $20,000 if married filing separately.

1. Accelerated depreciation.
2. Amortization of certified pollution-control facilities.
3. Charitable contribution of appreciated capital gain property.
4. Incentive stock options.
5. Tax-exempt interest from private activity bonds or exempt-interest dividends from a regulated investment company.
6. Intangible drilling costs.
7. Depletion.
8. Reserves for losses on bad debts of financial institutions.
9. Circulation and research and experimental expenditures.
10. Mining exploration and development costs.
11. Installment sales of property.
12. Tax shelter farm loss.
13. Passive activity loss.
14. Income from long-term contracts.

Get **Form 6251,** and its instructions to see if you are liable for this tax.

A net gain on disposing of U.S. real property interests may be subject to the alternative minimum tax. Use Form 6251 and the following worksheet to figure the tax.

Worksheet

First complete Form 6251 through line 14, and enter a tentative amount on line 15. Then make the following computation:

A Enter the amount from line 8, Form 6251 . . . . ________

B Enter your net U.S. real property gain for the tax year . . . . . ________

C Enter the smaller of A or B . . . ________

D Enter 21% of line C . . . . . . ________

If the amount on line D is more than the amount you entered on Form 6251, line 15, use that amount instead for line 15. Then complete the rest of Form 6251 using the correct amount on line 15. Enter the amount (if any) from Form 6251, line 19, on Form 1040NR, line 46. If the alternative minimum tax applies, attach Form 6251 and a copy of this page to your return.

Line 47—Recapture Taxes.—You may owe the tax computed on **Form 4255,** Recapture of Investment Credit, if you disposed of investment credit property before the end of its useful life or recovery period. See Form 4255 for details. If you owe this tax, check the box for Form 4255 and enter any tax due on line 47. If you disposed of property (or there was a reduction in the qualified basis of the property) on which you took the low-income housing credit, you may owe the tax computed on **Form 8611.**

Line 49—Social Security Tax on Tip Income Not Reported to Employer.—If you received tips of $20 or more in any month and you did not report the full amount to your employer, you must pay the social security or railroad retirement (RRTA) tax on the unreported tips. If you reported the full amount to your employer but your employer did not withhold the social security or RRTA tax, you must pay it unless the rules discussed under **Uncollected Employee Social Security and RRTA Tax on Tips** (line 52) apply.

To figure social security tax on unreported tips, complete **Form 4137,** Computation of Social Security Tax on Unreported Tip Income. On line 49 enter the tax from Form 4137.

To determine the RRTA tax on unreported tips, contact a Railroad Retirement Board office. On line 49, enter the tax and write "RRTA" on the dotted line.

Be sure to include all your tips in the income on line 8. You may be charged a penalty equal to 50% of the social security tax due on tips you received and did not report to your employer.

Line 50—Tax on IRAs and Retirement Plans.—You may owe this tax if: (1) you received any early distributions from your IRA, qualified employer plan, qualified annuity plan or tax-sheltered annuity plan; (2) you received any excess distributions from a plan mentioned in (1); (3) you made excess contributions to your IRA; or (4) you had excess accumulations in your IRA account or annuity. Get **Form 5329** and its instructions to see if you owe this tax. If you do, complete and attach Form 5329 and enter the total tax on line 50.

Line 51—Transportation Tax.— Nonresident alien individuals are subject to a 4% tax on U.S. sourced gross transportation income that is not effectively connected with a U.S. trade or business.

For purposes of this tax, transportation income will not be treated as effectively connected with the conduct of a trade or business in the United States unless:

A. You had a fixed place of business in the United States involved in the earning of transportation income, and

B. Substantially all of your U.S. source gross transportation income was attributable to regularly scheduled transportation (or, in the case of income from the leasing of a vessel or aircraft, was attributable to a fixed place of business in the United States). See Code sections 887, 863, and Pub. 519 for rules, definitions, and exceptions.

You may be exempt from this tax because of a treaty or an exchange of notes between the United States and the country where your tax home (as defined in section 911(d)(3)) is located, or because the country where your tax home is located does not impose tax on the shipping or aircraft income of U.S. persons. If you are exempt from the tax for any of these reasons, you must attach a statement to Form 1040NR identifying your tax home and the treaty, note, or law and provisions under which you claim exemption from the tax.

You must attach a schedule to your return that includes the following information (if applicable) for each trip to or from the United States:

- Type of activity generating income (e.g., partner in leasing partnership; owner/lessor; operator/lessee; management company; etc.)
- Breakdown of total transportation income by type of income (e.g., freight, passenger fare, container rental, services in connection with the use of vessel or aircraft)
- Any other information that may be required by regulations.

Line 52—Total Tax.—Add lines 45 through 51. Enter the total on line 52. Also include on line 52 any of the following four taxes that apply.

Section 72 Penalty Tax. If you are or were a 5% owner of a business and you received an excessive distribution from a Keogh plan or trust, you may have to pay a penalty tax of 10% of the distribution. See **Pub. 560** for more details.

Include the amount of the penalty in your total for line 52. On the dotted line next to this total, write "Section 72 penalty" and show the amount.

Advance Earned Income Credit (AEIC) Payments. If you received advance EIC payments (AEIC), the amount will be shown on your Form W-2. Include the amount of these payments in your total for line 52. On the dotted line next to this total, write "AEIC" and show the amount.

Note: *The amount of earned income credit that you can actually take will be figured on the worksheet in the 1988 Form 1040 Instructions and entered later on line 55.*

Uncollected Employee Social Security and RRTA Tax on Tips. If you did not have enough wages to cover the social security tax or railroad retirement (RRTA) tax due on tips you reported to your employer, the amount of tax due will be shown on your **Form W-2.** Include that amount in the total on line 52. On the dotted line next to this total, write "Uncollected Tax on Tips" and show the amount.

Golden Parachute Payments. Golden parachute payments are certain payments made by a corporation to key employees to compensate them if control of the corporation changes. If you received an excess parachute payment, you must pay a tax equal to 20% of this excess payment. Include the amount of this tax in your total for line 52. On the dotted line next to this total, write "EPP" and show the amount of the tax.

Lines 53 through 63

Payments

Line 53—Total Federal Income Tax Withheld.—Add the amounts shown as Federal income tax withheld on your **Forms W-2, W-2G, W-2P, and 1099-R.** Enter the total on line 53. The amount of Federal income tax withheld should be shown in Box 9 of Form W-2, Box 2 of Form W-2G, Box 11 of Form W-2P, and Box 4 of Form 1099-R.

If line 53 includes amounts withheld as shown on Form 1099-R, check the box on line 53.

Attach the first copy or Copy B of Forms W-2, W-2G, and W-2P to the front of Form 1040NR.

Line 54—1988 Estimated Tax Payments.— Enter on this line any payments you made on your estimated Federal income tax **(Form 1040-ES (NR))** for 1988. Include any overpayment from your 1987 return that you applied to your 1988 estimated tax.

Name Change. If you changed your name because of marriage, divorce, etc., and you made estimated tax payments using your former name, attach a statement to the front of Form 1040NR explaining all the payments you made in 1988, the Service Center where you made the payments, and the name(s) and social security number(s) under which the payments were made.

Line 55—Earned Income Credit.—If line 32 is less than $18,576, you received earned income, and you checked filing status box 6, see **Earned Income Credit** (line 56) on page 19 of Instructions for Form 1040. If you can take the credit, enter on line 55 the credit from line 5 or line 6c, of the worksheet on page 20 of the Form 1040 Instructions, whichever applies. This credit can be as much as $874.

Line 56—Amount Paid With Form 4868 (Extension of Time To File).—If you filed Form 4868 to get an extension of time to file Form 1040NR, enter the amount you paid with that form. Also include any amounts paid with **Form 2688.**

Line 57—Excess Social Security Tax and RRTA Tax Withheld—Two or More Employers.—If you had two or more employers in 1988 who together paid you more than $45,000 in wages, too much social security tax and railroad retirement (RRTA) tax may have been withheld from your wages. If so, you may be able to take a credit against your income tax.

If you worked for two or more railroad employers, or if you had both RRTA tax and social security tax withheld from your wages, get **Pub. 505,** Tax Withholding and Estimated Tax, for information on how to figure your excess RRTA or social security tax. **Do not** use the following worksheet.

Caution: *If you were a Federal, state, or local government employee who paid **only** the 1.45% medicare (hospital insurance benefits) tax on your government wages, **do not** include on line 1 of the following worksheet the medicare tax withheld from your government wages. See the instructions for line 59 to see if you can take a credit for excess medicare tax paid.*

Worksheet (keep for your records)

1 Add all social security tax withheld (but not more than $3,379.50 for each employer).* Enter the total here	
2 Enter any uncollected social security tax on tips included in the total on Form 1040NR, line 52	
3 Add 1 and 2 above	
4 Less	− 3,379.50
5 Subtract line 4 from line 3. Enter this amount on line 57	

*If any one employer withheld more than $3,379.50, you should ask the employer to refund the excess to you. You cannot take credit for it on your return.

Line 58—Credit for Federal Tax on Fuels.—If you can take a credit for tax on gasoline and special fuels used in your business (including qualified taxicabs), or for certain diesel-powered cars, vans, and light trucks, please attach **Form 4136.** Enter the credit on line 58. For more information, you should get **Pub. 225,** Farmer's Tax Guide, or **Pub. 378,** Fuel Tax Credits and Refunds.

Line 59—Regulated Investment Company Credit.—Enter the total credit from **Form 2439.** Be sure to attach Copy B of Form 2439. Also include on line 59 any Excess Medicare Tax Credit.

Excess Medicare Tax Credit. If you were a Federal, state, or local government employee whose wages in 1988 were subject **only** to the 1.45% medicare (hospital insurance benefits) tax and you had other social security or RRTA wages that when added to your government wages total more than $45,000, too much medicare tax may have been withheld. If so, you may take a credit against your income tax. Use **Form 4469,** Computation of Excess Medicare Tax Credit, to figure the credit. Include the amount of the credit in your total for line 59. On the dotted line next to this total, write "Form 4469" and show the amount.

Line 60—Credit for Amount Paid With Form 1040C.—Enter any amount you paid with Form 1040C for 1988.

Lines 61a and 61b—U.S. Tax Withheld at Source.— Enter on line 61a the amount you show on line 78, page 4. Enter on line 61b any tax withheld by a partnership under section 1446. Be sure to attach a copy of **Form 1042S, SSA-1042S, RRB-1042S,** or similar form.

Lines 62a and 62b—U.S. Tax Withheld on Dispositions of U.S. Real Property Interests.— Enter on line 62a any tax withheld on dispositions of U.S. real property interests from **Form 8288-A.** Enter on line 62b any tax withheld on dispositions of U.S. real property interest from **Form 1042S.**

Line 63—Total Payments.—Add lines 53 through 62b and enter the total on line 63. Also include on line 63 any Overpaid Windfall Profit Tax.

Overpaid Windfall Profit Tax. You may be allowed a credit for overpaid windfall profit tax (OWPT). Use **Form 6249** (Computation of Overpaid Windfall Profit Tax) to figure the overpayment. Include this amount in your total for line 63. Attach Form 6249 and **Form 6248** (Annual Information Return of Windfall Profit Tax) to Form 1040NR. On the dotted line next to this total, write "OWPT" and show the amount.

Lines 64 through 67

Refund or Amount You Owe

Line 64—Overpayment (if line 63 is larger than line 52).—Subtract line 52 from line 63. You can choose to have all, or part, of this amount refunded to you (line 65). The remainder, if any, can be applied to your estimated tax for 1989 (line 66). If line 64 is under $1, we will send a refund only on written request.

Income Tax Withholding for 1989.—If the amount you overpaid is large, get a copy of **Form W-4,** Employee's Withholding Allowance Certificate, from your employer to see if you are entitled to additional allowances. If you are, file a new Form W-4 with your employer to change the amount of income tax to be withheld from your wages.

If you go back to work after a period of unemployment, you may reduce the amount of income tax withheld if your employer agrees to use the part-year method of withholding. There are also other methods that could reduce your withholding.

For more details, see your employer or get **Pub. 515,** Withholding of Tax on Nonresident Aliens and Foreign Corporations.

Line 65—Refund.—Enter the amount from line 64 that you want refunded to you.

Line 66—Credit to Estimated Tax.—Enter on this line the amount of overpayment you want applied to your estimated tax for 1989.

Line 67—Amount You Owe (if line 52 is larger than line 63).—Subtract line 63 from line 52 and enter the result. This is the amount you owe.

Attach your check or money order for the full amount when you file. Make it out to "Internal Revenue Service" and be sure to write your social security number and "1988 Form 1040NR" on it. **Do not** include any estimated tax payments in your check or money order. If line 67 is under $1, you do not have to pay.

Underpayment of Estimated Tax

If line 67 is $500 or more and more than 10% of the tax shown on your return, or you underpaid your 1988 estimated tax liability for any payment period, you may owe a penalty. Use **Form 2210 (Form 2210F** for farmers and fishermen) to see if you owe a penalty and to figure the amount of the penalty. You may figure the penalty yourself by completing and attaching that form to Form 1040NR, or IRS will figure the penalty for you and send you a bill. But if you use the annualized income installment method to figure your required payments, you must complete and attach Form 2210 to Form 1040NR even if you do not owe the penalty.

Note: *The penalty may be waived under certain conditions. Get* ***Pub. 505,*** *Tax Withholding and Estimated Tax, for details.*

If you attach Form 2210 or 2210F, be sure to check the box below line 67 and enter the amount of any penalty you owe in the space provided. If you owe tax, add the penalty amount to any tax due and show the total on line 67. Or if you are due a refund, subtract the penalty amount from the overpayment you show on line 64.

However, if you pay other penalties or interest with this return (late filing or late payment penalties—explained under "Reminders" at the end of these instructions), show those amounts in the bottom margin of page 2 and identify them. Do **not** include them on line 67.

Income Tax Withholding for 1989

If you do owe tax for 1988, you may want to increase the amount of income tax withheld from your pay for 1989.

For more details, get Pub. 505 or Pub. 515.

Signature

See the instructions under "Reminders" on page 13 for the signature area after you complete pages 3, 4, and 5 of the form.

Page 3

Itemized Deductions

Instructions for Schedule A Form 1040NR

Lines 1 and 2

State and Local Income Taxes

You can deduct state and local income taxes that you paid or that were withheld from your salary during 1988 on income connected with a U.S. trade or business. If, during 1988, you received any refunds of income tax paid in earlier years, do not subtract them from the amount you deduct here. See instructions for Form 1040NR, line 11.

Lines 3 and 4

Contributions You Made to U.S. Organizations

You may deduct what you actually gave to U.S. organizations that are religious, charitable, educational, scientific, or literary in purpose. You can also deduct what you gave to organizations that work to prevent cruelty to children or animals. If you do not know whether you can deduct what you gave to an organization, check with that organization or with IRS.

Contributions You MAY Deduct

Contributions may be in cash (keep cancelled checks, receipts, or other reliable written records showing the name of the organization and the date and amount given), property, or out-of-pocket expenses you paid to do volunteer work for the kinds of organizations listed earlier. If you drove to and from the volunteer work, you may take 12 cents a mile or the actual cost of gas and oil. Add parking and tolls to the amount you claim under either method. (But don't deduct any amounts that were repaid to you.)

Limit on the amount you may deduct. If any of the following applies, get **Pub. 526,** Charitable Contributions, to figure the amount of your deduction:

- your cash contributions or contributions of ordinary income property are more than 30% of Form 1040NR, line 32,
- your gifts of capital property to certain organizations are more than 20% of Form 1040NR, line 32, or
- you gave gifts of property that increased in value or gave gifts of the use of property.

You MAY NOT Deduct As Contributions

- Travel expenses (including meals and lodging) while away from home unless there was no significant element of personal pleasure, recreation, or vacation in the travel.
- Political contributions.
- Dues, fees, or bills paid to country clubs, lodges, fraternal orders, or similar groups.
- Cost of raffle, bingo, or lottery tickets.
- Cost of tuition.
- The value of your time or services.
- Value of blood given to a blood bank.
- The transfer of a future interest in tangible personal property (generally, until the entire interest has been transferred).
- Gifts to:
  - a. Individuals.
  - b. Foreign organizations.
  - c. Groups that are run for personal profit.
  - d. Groups whose purpose is to lobby for changes in the laws.
  - e. Civic leagues, social and sports clubs, labor unions, and chambers of commerce.

Recordkeeping. If you gave property, you should keep a receipt or written statement from the organization you gave the property to, or a reliable written record, that shows the organization's name and address, the date and location of the gift, and a description of the property. You should also keep reliable written records for each gift of property that include the following information:

a. How you figured the property's value at the time you gave it. (If the value was determined by an appraisal, you should also keep a signed copy of the appraisal.)

b. The cost or other basis of the property if you must reduce it by any ordinary income or capital gain that would have resulted if the property had been sold at its fair market value.

c. How you figured your deduction if you chose to reduce your deduction for gifts of capital gain property.

d. Any conditions attached to the gift.

Note: *If your total deduction for gifts of property is over $500 or if you gave less than your entire interest in the property, or you made a qualified conservation contribution under section 170(h), your records should contain additional information. Get Pub. 526 for details.*

Line 3a. Enter contributions you made in cash or by check (including out-of-pocket expenses). If you gave $3,000 or more to any one organization, show to whom and how much you gave in the space provided.

Line 3b. Enter your contributions of property. If you gave used items, such as clothing or furniture, deduct their fair market value at the time you gave them. Fair market value is what a willing buyer would pay a willing seller when neither has to buy or sell and both are aware of the conditions of the sale. If the amount of your deduction is more than $500, you must complete and attach **Form 8283,** Noncash Charitable Contributions. If your total deduction is over $5,000, you may also have to get appraisals of the values of the donated property. For this purpose, the "amount of your deduction" means your deduction BEFORE applying any income limitation that could result in a carryover of contributions. See Form 8283 and its instructions for details.

Line 5

Casualty and Theft Losses

Use line 5 to report any casualty or theft losses of property that is not trade or business, income-producing, or rent or royalty property. Figure your loss on **Form 4684**, Casualties and Thefts. Enter on line 5 the amount of loss from Form 4684. Attach Form 4684.

Losses You MAY Deduct.—You may be able to deduct all or part of each loss caused by theft, vandalism, fire, storm, and car, boat, and other accidents or similar causes. You may also be able to deduct money you had in a financial institution but lost because of the insolvency or bankruptcy of the institution.

You may deduct nonbusiness casualty or theft losses only to the extent that—

a. The amount of **EACH** separate casualty or theft loss is more than **$100**, and

b. The total amount of **ALL** losses during the year is more than 10% of your adjusted gross income on Form 1040NR, line 32.

Special rules apply if you had both gains and losses from nonbusiness casualties or thefts. Get Form **4684** for details.

Losses You MAY NOT Deduct.—

- Money or property misplaced or lost.
- Breakage of china, glassware, furniture, and similar items under normal conditions.
- Progressive damage to property (buildings, clothes, trees, etc.) caused by termites, moths, other insects, or disease.

Use line 7b of Schedule A to deduct the costs of proving that you had a property loss. (Examples of these costs are appraisal fees and photographs used to establish the amount of your loss.)

For more details, get **Pub. 547,** Nonbusiness Disasters, Casualties, and Thefts. It also gives information about Federal disaster area losses.

Line 6

Moving Expenses

Employees and self-employed persons (including partners) can deduct certain moving expenses.

You can take this deduction if you moved in connection with your job or business and your change in job location has added at least 35 miles to the distance from your old residence to your workplace. If you had no former workplace, your new workplace must be at least 35 miles from your old residence. If you meet these requirements, see **Pub. 521,** Moving Expenses. Complete and attach **Form 3903** to figure the amount of moving expenses to enter on line 6.

Lines 7 through 9

Miscellaneous Deductions

Note: *Miscellaneous deductions are allowed only if and to the extent they are connected with your effectively connected income.*

Most miscellaneous deductions cannot be deducted in full. You must subtract 2% of your adjusted gross income from the total. Generally, the 2% limit applies to job expenses you paid for which you were not reimbursed (line 7a) and certain expenses you paid to produce or collect taxable income (line 7b).

The 2% limit does not apply to certain other miscellaneous expenses that you may deduct, such as certain job expenses of handicapped employees. These expenses can be deducted in full on line 9. See **Pub. 529,** Miscellaneous Deductions, for more details.

Expenses Subject to 2% AGI Limit

Line 7a. Use line 7a to report job expenses you paid for which you were not reimbursed. In some cases, you **MUST** first fill out **Form 2106,** Employee Business Expenses.

Fill out Form 2106 if : **(1)** you claim any travel, transportation, meal, or entertainment expenses for your job; or **(2)** your employer paid you for any of your job expenses reportable on line 7a. If **1** or **2** above applies, enter the amount from Form 2106, line 17, on line 7a of Schedule A.

If you don't have to fill out Form 2106, list your expenses on line 7a. If necessary, show the required information on an attached statement. Enter one total in the total amount column.

Examples of expenses to include on line 7a are:

- Travel, transportation, meal or entertainment expenses. (**Note:** *If you have any of these expenses, you must use Form 2106 for all your job expenses.)*
- Union dues.
- Safety equipment, small tools, and supplies you needed for your job.
- Uniforms your employers said you must have, and which you may not usually wear away from work.
- Protective clothing, required in your work, such as hard hats and safety shoes and glasses.
- Physical examinations your employer said you must have.
- Dues to professional organizations and chambers of commerce.
- Subscriptions to professional journals.
- Business use of part of your home, but only if you use that part exclusively and on a regular basis in your work and for the convenience of your employer. Limits apply to the amount of expenses you may include. For details, see **Pub. 587,** Business Use of Your Home.
- Educational expenses you paid for education required by your employer, or by law or regulations, to keep your present salary or job. In general, you may also include the cost of maintaining or improving skills you must have in your present position. For more details, see **Pub. 508,** Educational Expenses. Some educational expenses are not deductible, (see **Expenses You MAY NOT Deduct** below).

Line 7b. List the type and amount of each expense. Enter on this line amounts you paid to produce or collect taxable income, manage or protect property held for producing income, or determine your tax. Enter one total in the total amount column on line 7b. If necessary, show the required information on an attached statement. Examples of these expenses are:

- Tax return preparation fee.
- Certain legal and accounting fees.
- Clerical help and office rent.
- Custodial (e.g., trust account) fees.
- Your share of the investment expenses of a regulated investment company.

Other Miscellaneous Deductions

Line 9. Only certain miscellaneous expenses are **not** subject to the 2% AGI limit. List the type and amount of each expense. Enter one total in the total amount column on line 9. Examples of these expenses are:

- Certain adjustments when you restore amounts held under a claim of right.
- Impairment-related work expenses of a handicapped person.

For more details on these and other expenses not subject to 2% AGI limit, get Pub. 529.

Expenses You MAY NOT Deduct

- Political contributions.
- Personal legal expenses.
- Lost or misplaced cash or property (but see **Casualty and Theft Losses**).
- Expenses for meals during regular or extra work hours.
- The cost of entertaining friends.
- Expenses of going to or from work.
- Education that you need to meet minimum requirements for your job or that will qualify you for a new occupation.
- Expenses of:

  a. Travel as a form of education.

  b. Attending a convention, seminar, or similar meeting unless it is related to your employment.
- Fines and penalties.
- Expenses of producing tax-exempt income.

Page 4

Income Not Effectively Connected With a U.S. Trade or Business

For more information, see **Pub. 519,** U.S. Tax Guide for Aliens.

The items below are generally taxed at 30% if they are not effectively connected with your U.S. trade or business. The rate may be lower for you if your country and the United States have a treaty setting lower rates. Table 1, **Pub. 901,** summarizes what countries have such treaties and what the rates are.

The 30% tax applies only to amounts included in gross income. For example, the tax applies only to the part of a periodic annuity or pension payment that is subject to tax; it does not apply to the part that is a return of your cost.

The list below gives only a general idea of what income to report on page 4.

1. Income that is fixed or periodic, such as interest, original issue discount, dividends, rents, salaries, wages, premiums, annuities, other compensation, or alimony received. Other items of income, such as royalties, also may be subject to the 30% tax.

Note: *Portfolio interest that you received as a nonresident alien on obligations issued after July 18, 1984, is exempt from the 30% tax. For more information, see Pub. 519.*

2. Gains, other than capital gains, from the sale or exchange of patents, copyrights, and other intangible property.

3. Gain from a sale or exchange of an original issue discount obligation, not in excess of the original issue discount accruing while such obligation was held by you and not previously included in income. See section 871(a)(1)(C)(i).

4. Lump-sum distributions from employees' tax-exempt trusts; payments to beneficiaries under qualified annuity plans; and timber, coal, and iron ore royalties.

5. Capital gains in excess of capital losses from U.S. sources during 1988. Include these gains only if you were in the United States at least 183 days during 1988. They are not subject to U.S. tax if you were in the United States less than 183 days during the tax year. In determining your net gain, do not use the capital loss carryover.

Losses from sales or exchanges of capital assets in excess of similar gains are not allowed.

If you had a gain or loss on disposing of a U.S. real property interest, see **Dispositions of U.S. Real Property Interests** on page 3.

6. Prizes, awards, and gambling winnings. Proceeds from lotteries, raffles, etc., are gambling winnings. You must report the full amount of your winnings. You cannot offset losses against winnings and report the difference.

Social Security Benefits (Tier I Railroad Retirement Benefits Treated As Social Security).—One-half of the U.S. social security benefits you received are taxable. This amount is treated as U.S. source income not effectively connected with a U.S. trade or business and is subject to the 30% tax rate, unless exempt or taxed at a reduced rate under a U.S. tax treaty. Social security benefits include any monthly benefits under title II of the Social Security Act or the amount of a tier I railroad retirement benefit that is equivalent to social security benefits. Social security benefits do not include any Supplemental Security Income (SSI) payments.

You should receive a statement on **Form SSA-1042S** by January 31, 1989. If you received railroad retirement benefits treated as social security, you should receive **Form RRB-1042S.**

Enter 50 percent of the total amount from Box 5 of **ALL** your Forms SSA-1042S and Forms RRB-1042S on line 75, page 4, of Form 1040NR. Attach a copy of all Forms SSA-1042S and RRB-1042S to Form 1040NR.

Withholding of Tax at the Source.—A tax must be withheld at source on certain income from U.S. sources paid to nonresident aliens. The withholding is generally at the 30% rate. There are exceptions to the general rule, and tax treaties with various countries may provide a lower rate or exempt certain income from withholding. The tax must be withheld by the person who pays fixed or determinable annual or periodical income to nonresident aliens. The income subject to this withholding should be reported on page 4 of Form 1040NR. For details, see Pub. 519, Pub. 515, and Code section 1441 and the regulations thereunder.

Questionnaire on Page 5

You must answer all questions. If a question does not apply to you, write "NA" (for Not Applicable).

Reminders

Sign and date your return

Form 1040NR is not considered a return unless you sign it. If an agent (including your spouse) signs for you, your authorization of the signature must be filed with the return.

You may have an agent in the United States prepare and sign your return if you could not do so for one of the following reasons:

- You were ill.
- You were not in the United States at any time during the 60 days before the return was due.
- For other reasons that you explained in writing to the Internal Revenue Service Center, Philadelphia, PA 19255, U.S.A., and that IRS approved.

Dependent Child's Return.—If your dependent child cannot sign his or her return because of age or other reasons, you may sign your child's name in the space provided followed by the words "By (your signature), parent (or guardian) for minor child."

Did You Have Someone Else Prepare Your Return? If you fill in your own return, the Paid Preparer's space should remain blank. Someone who prepares your return but **does not charge you, should not sign.**

Generally, anyone who is paid to prepare your tax return must sign your return and fill in the other blanks in the Paid Preparer's Use Only area of your return.

If you have questions about whether a preparer is required to sign your return, please contact an IRS office.

The preparer required to sign your return **MUST:**

- Sign it by hand, in the space provided for the preparer's signature. (Signature stamps or labels are not acceptable.)
- Give you a copy of your return in addition to the copy to be filed with IRS.

Tax return preparers should be familiar with their responsibilities. They should see **Pub. 1045,** Information for Tax Practitioners, for more details.

Address Change

If you move after filing your return and you expect a refund, notify both the post office serving your old address and the Internal Revenue Service Center, Philadelphia, PA 19255, U.S.A. You will receive your check faster this way. Please be sure to write your identifying or social security number on any letters to IRS.

Estimated Tax for Individuals

In general, you do not have to pay estimated tax if you expect your 1989 Form 1040NR to show a tax refund, or a tax balance due (money you still owe IRS when you file in 1990) of less than $500. However, if your total balance due (estimated tax) is $500 or more, you may have to pay estimated tax.

Generally, estimated tax affects self-employed people and wage earners in upper-income brackets. Paying estimated tax puts you in the same pay-as-you-go basis as most employees.

To determine whether you must pay estimated tax, see **Form 1040-ES(NR).** It contains a worksheet that you can use to see if you have to make estimated tax payments. However, if you expect to be a resident of Puerto Rico during all of 1989 and you must pay estimated tax, use **Form 1040-ES.**

Tax Shelter Registration Number

A person who sells (or otherwise transfers) to you an interest in a tax shelter must maintain a list of investors and give you the tax shelter registration number assigned to the tax shelter. You must attach to your tax return **Form 8271**, Investor Reporting of Tax Shelter Registration Number, to report this number. Penalties are provided if you fail to report this number on your tax return.

How Long To Keep Your Records

Keep your records as long as they may be needed to carry out any Internal Revenue law. This means you should keep those records on items of income, deduction, or credit that you show on your return until the statute of limitations runs out for that return. Usually this is 3 years from the date the return was due or filed, or 2 years from the date the tax was paid, whichever is later. Other records must be kept longer. Keep property records (including those on your own home) as long as they are needed to figure the basis of the original or replacement property. Also keep copies of the tax returns you have filed. For more details, get **Pub. 552,** Recordkeeping for Individuals and a List of Tax Publications.

Requesting a Copy of Your Tax Return. If you need a copy of your tax return, use **Form 4506,** Request for Copy of Tax Form. The charge for a copy of a return is $4.25.

Penalties and Interest

Interest.—We will charge you interest on taxes not paid by their due date, even if an extension of time to file is granted. We will also charge you interest on penalties imposed for failure to file, gross valuation overstatements, and substantial understatements of tax. Interest is charged on the penalty as of the due date of the return (including extensions) to the date of payment.

Late Filing of Return.—You can avoid penalties for late filing by sending in your return by the due date. The law provides a penalty of 5% of the tax due for each month, or part of a month, the return is late (maximum 25%) unless you can show reasonable cause for the delay. If you file a late return, attach a full explanation to your return. If your return is more than 60 days late, the penalty will be at least $100 or the balance of tax due on your return, whichever is less.

Late Payment of Tax.—Generally, the penalty for not paying tax when due is ½ of 1% of the unpaid amount for each month or part of a month it remains unpaid. The maximum penalty is 25% of the unpaid amount. The penalty applies to any unpaid tax shown on a return. It also applies to any additional tax shown on a bill if it is not paid within 10 days from the date of the bill. This penalty is in addition to interest charges on late payments.

Note: *If you include interest or either of these penalties with your payment, identify and enter these amounts in the bottom margin of Form 1040NR, page 2. Do not include the interest or penalty amounts in* **Amount You Owe** *on line 67.*

Penalty for Frivolous Return.—In addition to any other penalties, the law imposes a penalty of $500 for filing a frivolous return. A frivolous return is one which does not contain information needed to figure the correct tax or shows a substantially incorrect tax, because you take a frivolous position or desire to delay or interfere with the tax laws. This includes any alteration or striking out of the preprinted language above the space provided for your signature.

Other Penalties.—There are also other penalties that can be imposed for negligence, substantial understatement of tax, and fraud.

Voluntary Contributions To Reduce the Public Debt

If you wish to make a contribution to reduce the public debt, enclose a separate check with your income tax return and make it payable to "Bureau of the Public Debt." You may be able to deduct this contribution on your 1989 tax return. Please do not add it to any tax you may owe. If you owe tax, include a separate check for that amount payable to "Internal Revenue Service."

Taxpayer Assistance

IRS assistance is available to help you prepare returns. But you should know that you are responsible for the accuracy of your return. If we do make an error, you are still responsible for the payment of the correct tax.

In the United States call the local city number listed in your telephone directory if it is not a long-distance call for you. Otherwise, call 1-800-424-1040, a toll-free number.

If you find it necessary to write instead of calling, please address your letter to your IRS District Director for a prompt reply. Make sure you include your social security number or taxpayer identifying number when you write.

Assistance in answering tax questions and filling out tax returns is also available in person from Internal Revenue offices in: Bonn, Germany; Caracas, Venezuela; Riyadh, Saudi Arabia; London, England; Manila, the Philippines; Mexico City, Mexico; Nassau, the Bahamas; Ottawa, Canada; Paris, France; Rome, Italy; Sao Paulo, Brazil; Singapore; Sydney, Australia; and Tokyo, Japan. The offices generally are located in the U.S. embassies or consulates. During every tax return filing period, income tax forms and publications may be obtained from U.S. embassies and consulates abroad.

The Internal Revenue Service conducts an overseas taxpayer assistance program during filing season (January to mid-June). To find out if Internal Revenue Service personnel will be in your area, you should contact the consular office at the nearest U.S. Embassy.

Unresolved Tax Problems

The Problem Resolution Program is for taxpayers who have been unable to resolve their problems with IRS. If you have a tax problem you cannot clear up through normal channels, write to your local IRS District Director or call your local IRS office and ask for Problem Resolution assistance. (You may also contact one of the overseas IRS offices listed on this page under Taxpayer Assistance.) Although this office cannot change the tax law or technical decisions, it can assist in resolving problems that resulted from previous contacts.

1988 Tax Table

Based on Taxable Income

For persons with taxable incomes of less than $50,000.

Example: Mr. Green is filing as a qualifying widower. His taxable income on line 36 of Form 1040NR is $25,300. First, he finds the $25,300–25,350 income line. Next, he finds the column for qualifying widower and reads down the column. The amount shown where the income line and filing status column meet is $3,799. This is the tax amount he must write on line 37 of his return.

At least	But less than	Single	Qualifying widow(er)	Married filing separately
		Your tax is—		
25,200	**25,250**	4,743	3,784	5,129
25,250	**25,300**	4,757	3,791	5,143
25,300	**25,350**	4,771	3,799	5,157
25,350	**25,400**	4,785	3,806	5,171

If line 36 (taxable income) is—		**And you are—**		
At least	But less than	Single	Qualifying widow(er)	Married filing separately
		Your tax is—		
$0	**$5**	$0	$0	$0
5	**15**	2	2	2
15	**25**	3	3	3
25	**50**	6	6	6
50	**75**	9	9	9
75	**100**	13	13	13
100	**125**	17	17	17
125	**150**	21	21	21
150	**175**	24	24	24
175	**200**	28	28	28
200	**225**	32	32	32
225	**250**	36	36	36
250	**275**	39	39	39
275	**300**	43	43	43
300	**325**	47	47	47
325	**350**	51	51	51
350	**375**	54	54	54
375	**400**	58	58	58
400	**425**	62	62	62
425	**450**	66	66	66
450	**475**	69	69	69
475	**500**	73	73	73
500	**525**	77	77	77
525	**550**	81	81	81
550	**575**	84	84	84
575	**600**	88	88	88
600	**625**	92	92	92
625	**650**	96	96	96
650	**675**	99	99	99
675	**700**	103	103	103
700	**725**	107	107	107
725	**750**	111	111	111
750	**775**	114	114	114
775	**800**	118	118	118
800	**825**	122	122	122
825	**850**	126	126	126
850	**875**	129	129	129
875	**900**	133	133	133
900	**925**	137	137	137
925	**950**	141	141	141
950	**975**	144	144	144
975	**1,000**	148	148	148
1,000				
1,000	**1,025**	152	152	152
1,025	**1,050**	156	156	156
1,050	**1,075**	159	159	159
1,075	**1,100**	163	163	163
1,100	**1,125**	167	167	167
1,125	**1,150**	171	171	171
1,150	**1,175**	174	174	174
1,175	**1,200**	178	178	178
1,200	**1,225**	182	182	182
1,225	**1,250**	186	186	186
1,250	**1,275**	189	189	189
1,275	**1,300**	193	193	193
1,300	**1,325**	197	197	197
1,325	**1,350**	201	201	201
1,350	**1,375**	204	204	204
1,375	**1,400**	208	208	208
1,400	**1,425**	212	212	212
1,425	**1,450**	216	216	216
1,450	**1,475**	219	219	219
1,475	**1,500**	223	223	223
1,500	**1,525**	227	227	227
1,525	**1,550**	231	231	231
1,550	**1,575**	234	234	234
1,575	**1,600**	238	238	238
1,600	**1,625**	242	242	242
1,625	**1,650**	246	246	246
1,650	**1,675**	249	249	249
1,675	**1,700**	253	253	253
1,700	**1,725**	257	257	257
1,725	**1,750**	261	261	261
1,750	**1,775**	264	264	264
1,775	**1,800**	268	268	268
1,800	**1,825**	272	272	272
1,825	**1,850**	276	276	276
1,850	**1,875**	279	279	279
1,875	**1,900**	283	283	283
1,900	**1,925**	287	287	287
1,925	**1,950**	291	291	291
1,950	**1,975**	294	294	294
1,975	**2,000**	298	298	298
2,000				
2,000	**2,025**	302	302	302
2,025	**2,050**	306	306	306
2,050	**2,075**	309	309	309
2,075	**2,100**	313	313	313
2,100	**2,125**	317	317	317
2,125	**2,150**	321	321	321
2,150	**2,175**	324	324	324
2,175	**2,200**	328	328	328
2,200	**2,225**	332	332	332
2,225	**2,250**	336	336	336
2,250	**2,275**	339	339	339
2,275	**2,300**	343	343	343
2,300	**2,325**	347	347	347
2,325	**2,350**	351	351	351
2,350	**2,375**	354	354	354
2,375	**2,400**	358	358	358
2,400	**2,425**	362	362	362
2,425	**2,450**	366	366	366
2,450	**2,475**	369	369	369
2,475	**2,500**	373	373	373
2,500	**2,525**	377	377	377
2,525	**2,550**	381	381	381
2,550	**2,575**	384	384	384
2,575	**2,600**	388	388	388
2,600	**2,625**	392	392	392
2,625	**2,650**	396	396	396
2,650	**2,675**	399	399	399
2,675	**2,700**	403	403	403
2,700	**2,725**	407	407	407
2,725	**2,750**	411	411	411
2,750	**2,775**	414	414	414
2,775	**2,800**	418	418	418
2,800	**2,825**	422	422	422
2,825	**2,850**	426	426	426
2,850	**2,875**	429	429	429
2,875	**2,900**	433	433	433
2,900	**2,925**	437	437	437
2,925	**2,950**	441	441	441
2,950	**2,975**	444	444	444
2,975	**3,000**	448	448	448
3,000				
3,000	**3,050**	454	454	454
3,050	**3,100**	461	461	461
3,100	**3,150**	469	469	469
3,150	**3,200**	476	476	476
3,200	**3,250**	484	484	484
3,250	**3,300**	491	491	491
3,300	**3,350**	499	499	499
3,350	**3,400**	506	506	506
3,400	**3,450**	514	514	514
3,450	**3,500**	521	521	521
3,500	**3,550**	529	529	529
3,550	**3,600**	536	536	536
3,600	**3,650**	544	544	544
3,650	**3,700**	551	551	551
3,700	**3,750**	559	559	559
3,750	**3,800**	566	566	566
3,800	**3,850**	574	574	574
3,850	**3,900**	581	581	581
3,900	**3,950**	589	589	589
3,950	**4,000**	596	596	596
4,000				
4,000	**4,050**	604	604	604
4,050	**4,100**	611	611	611
4,100	**4,150**	619	619	619
4,150	**4,200**	626	626	626
4,200	**4,250**	634	634	634
4,250	**4,300**	641	641	641
4,300	**4,350**	649	649	649
4,350	**4,400**	656	656	656
4,400	**4,450**	664	664	664
4,450	**4,500**	671	671	671
4,500	**4,550**	679	679	679
4,550	**4,600**	686	686	686
4,600	**4,650**	694	694	694
4,650	**4,700**	701	701	701
4,700	**4,750**	709	709	709
4,750	**4,800**	716	716	716
4,800	**4,850**	724	724	724
4,850	**4,900**	731	731	731
4,900	**4,950**	739	739	739
4,950	**5,000**	746	746	746

Continued on next page

If line 36 (taxable income) is—		And you are—		
At least	But less than	Single	Qualifying widow(er)	Married filing separately
		Your tax is—		
5,000				
5,000	5,050	754	754	754
5,050	5,100	761	761	761
5,100	5,150	769	769	769
5,150	5,200	776	776	776
5,200	5,250	784	784	784
5,250	5,300	791	791	791
5,300	5,350	799	799	799
5,350	5,400	806	806	806
5,400	5,450	814	814	814
5,450	5,500	821	821	821
5,500	5,550	829	829	829
5,550	5,600	836	836	836
5,600	5,650	844	844	844
5,650	5,700	851	851	851
5,700	5,750	859	859	859
5,750	5,800	866	866	866
5,800	5,850	874	874	874
5,850	5,900	881	881	881
5,900	5,950	889	889	889
5,950	6,000	896	896	896
6,000				
6,000	6,050	904	904	904
6,050	6,100	911	911	911
6,100	6,150	919	919	919
6,150	6,200	926	926	926
6,200	6,250	934	934	934
6,250	6,300	941	941	941
6,300	6,350	949	949	949
6,350	6,400	956	956	956
6,400	6,450	964	964	964
6,450	6,500	971	971	971
6,500	6,550	979	979	979
6,550	6,600	986	986	986
6,600	6,650	994	994	994
6,650	6,700	1,001	1,001	1,001
6,700	6,750	1,009	1,009	1,009
6,750	6,800	1,016	1,016	1,016
6,800	6,850	1,024	1,024	1,024
6,850	6,900	1,031	1,031	1,031
6,900	6,950	1,039	1,039	1,039
6,950	7,000	1,046	1,046	1,046
7,000				
7,000	7,050	1,054	1,054	1,054
7,050	7,100	1,061	1,061	1,061
7,100	7,150	1,069	1,069	1,069
7,150	7,200	1,076	1,076	1,076
7,200	7,250	1,084	1,084	1,084
7,250	7,300	1,091	1,091	1,091
7,300	7,350	1,099	1,099	1,099
7,350	7,400	1,106	1,106	1,106
7,400	7,450	1,114	1,114	1,114
7,450	7,500	1,121	1,121	1,121
7,500	7,550	1,129	1,129	1,129
7,550	7,600	1,136	1,136	1,136
7,600	7,650	1,144	1,144	1,144
7,650	7,700	1,151	1,151	1,151
7,700	7,750	1,159	1,159	1,159
7,750	7,800	1,166	1,166	1,166
7,800	7,850	1,174	1,174	1,174
7,850	7,900	1,181	1,181	1,181
7,900	7,950	1,189	1,189	1,189
7,950	8,000	1,196	1,196	1,196
8,000				
8,000	8,050	1,204	1,204	1,204
8,050	8,100	1,211	1,211	1,211
8,100	8,150	1,219	1,219	1,219
8,150	8,200	1,226	1,226	1,226
8,200	8,250	1,234	1,234	1,234
8,250	8,300	1,241	1,241	1,241
8,300	8,350	1,249	1,249	1,249
8,350	8,400	1,256	1,256	1,256
8,400	8,450	1,264	1,264	1,264
8,450	8,500	1,271	1,271	1,271
8,500	8,550	1,279	1,279	1,279
8,550	8,600	1,286	1,286	1,286
8,600	8,650	1,294	1,294	1,294
8,650	8,700	1,301	1,301	1,301
8,700	8,750	1,309	1,309	1,309
8,750	8,800	1,316	1,316	1,316
8,800	8,850	1,324	1,324	1,324
8,850	8,900	1,331	1,331	1,331
8,900	8,950	1,339	1,339	1,339
8,950	9,000	1,346	1,346	1,346
9,000				
9,000	9,050	1,354	1,354	1,354
9,050	9,100	1,361	1,361	1,361
9,100	9,150	1,369	1,369	1,369
9,150	9,200	1,376	1,376	1,376
9,200	9,250	1,384	1,384	1,384
9,250	9,300	1,391	1,391	1,391
9,300	9,350	1,399	1,399	1,399
9,350	9,400	1,406	1,406	1,406
9,400	9,450	1,414	1,414	1,414
9,450	9,500	1,421	1,421	1,421
9,500	9,550	1,429	1,429	1,429
9,550	9,600	1,436	1,436	1,436
9,600	9,650	1,444	1,444	1,444
9,650	9,700	1,451	1,451	1,451
9,700	9,750	1,459	1,459	1,459
9,750	9,800	1,466	1,466	1,466
9,800	9,850	1,474	1,474	1,474
9,850	9,900	1,481	1,481	1,481
9,900	9,950	1,489	1,489	1,489
9,950	10,000	1,496	1,496	1,496
10,000				
10,000	10,050	1,504	1,504	1,504
10,050	10,100	1,511	1,511	1,511
10,100	10,150	1,519	1,519	1,519
10,150	10,200	1,526	1,526	1,526
10,200	10,250	1,534	1,534	1,534
10,250	10,300	1,541	1,541	1,541
10,300	10,350	1,549	1,549	1,549
10,350	10,400	1,556	1,556	1,556
10,400	10,450	1,564	1,564	1,564
10,450	10,500	1,571	1,571	1,571
10,500	10,550	1,579	1,579	1,579
10,550	10,600	1,586	1,586	1,586
10,600	10,650	1,594	1,594	1,594
10,650	10,700	1,601	1,601	1,601
10,700	10,750	1,609	1,609	1,609
10,750	10,800	1,616	1,616	1,616
10,800	10,850	1,624	1,624	1,624
10,850	10,900	1,631	1,631	1,631
10,900	10,950	1,639	1,639	1,639
10,950	11,000	1,646	1,646	1,646
11,000				
11,000	11,050	1,654	1,654	1,654
11,050	11,100	1,661	1,661	1,661
11,100	11,150	1,669	1,669	1,669
11,150	11,200	1,676	1,676	1,676
11,200	11,250	1,684	1,684	1,684
11,250	11,300	1,691	1,691	1,691
11,300	11,350	1,699	1,699	1,699
11,350	11,400	1,706	1,706	1,706
11,400	11,450	1,714	1,714	1,714
11,450	11,500	1,721	1,721	1,721
11,500	11,550	1,729	1,729	1,729
11,550	11,600	1,736	1,736	1,736
11,600	11,650	1,744	1,744	1,744
11,650	11,700	1,751	1,751	1,751
11,700	11,750	1,759	1,759	1,759
11,750	11,800	1,766	1,766	1,766
11,800	11,850	1,774	1,774	1,774
11,850	11,900	1,781	1,781	1,781
11,900	11,950	1,789	1,789	1,789
11,950	12,000	1,796	1,796	1,796
12,000				
12,000	12,050	1,804	1,804	1,804
12,050	12,100	1,811	1,811	1,811
12,100	12,150	1,819	1,819	1,819
12,150	12,200	1,826	1,826	1,826
12,200	12,250	1,834	1,834	1,834
12,250	12,300	1,841	1,841	1,841
12,300	12,350	1,849	1,849	1,849
12,350	12,400	1,856	1,856	1,856
12,400	12,450	1,864	1,864	1,864
12,450	12,500	1,871	1,871	1,871
12,500	12,550	1,879	1,879	1,879
12,550	12,600	1,886	1,886	1,886
12,600	12,650	1,894	1,894	1,894
12,650	12,700	1,901	1,901	1,901
12,700	12,750	1,909	1,909	1,909
12,750	12,800	1,916	1,916	1,916
12,800	12,850	1,924	1,924	1,924
12,850	12,900	1,931	1,931	1,931
12,900	12,950	1,939	1,939	1,939
12,950	13,000	1,946	1,946	1,946
13,000				
13,000	13,050	1,954	1,954	1,954
13,050	13,100	1,961	1,961	1,961
13,100	13,150	1,969	1,969	1,969
13,150	13,200	1,976	1,976	1,976
13,200	13,250	1,984	1,984	1,984
13,250	13,300	1,991	1,991	1,991
13,300	13,350	1,999	1,999	1,999
13,350	13,400	2,006	2,006	2,006
13,400	13,450	2,014	2,014	2,014
13,450	13,500	2,021	2,021	2,021
13,500	13,550	2,029	2,029	2,029
13,550	13,600	2,036	2,036	2,036
13,600	13,650	2,044	2,044	2,044
13,650	13,700	2,051	2,051	2,051
13,700	13,750	2,059	2,059	2,059
13,750	13,800	2,066	2,066	2,066
13,800	13,850	2,074	2,074	2,074
13,850	13,900	2,081	2,081	2,081
13,900	13,950	2,089	2,089	2,089
13,950	14,000	2,096	2,096	2,096

Continued on next page

If line 36 (taxable income) is—		And you are—		
At least	But less than	Single	Qualifying widow(er)	Married filing separately
		Your tax is—		
14,000				
14,000	**14,050**	2,104	2,104	2,104
14,050	**14,100**	2,111	2,111	2,111
14,100	**14,150**	2,119	2,119	2,119
14,150	**14,200**	2,126	2,126	2,126
14,200	**14,250**	2,134	2,134	2,134
14,250	**14,300**	2,141	2,141	2,141
14,300	**14,350**	2,149	2,149	2,149
14,350	**14,400**	2,156	2,156	2,156
14,400	**14,450**	2,164	2,164	2,164
14,450	**14,500**	2,171	2,171	2,171
14,500	**14,550**	2,179	2,179	2,179
14,550	**14,600**	2,186	2,186	2,186
14,600	**14,650**	2,194	2,194	2,194
14,650	**14,700**	2,201	2,201	2,201
14,700	**14,750**	2,209	2,209	2,209
14,750	**14,800**	2,216	2,216	2,216
14,800	**14,850**	2,224	2,224	2,224
14,850	**14,900**	2,231	2,231	2,231
14,900	**14,950**	2,239	2,239	2,245
14,950	**15,000**	2,246	2,246	2,259
15,000				
15,000	**15,050**	2,254	2,254	2,273
15,050	**15,100**	2,261	2,261	2,287
15,100	**15,150**	2,269	2,269	2,301
15,150	**15,200**	2,276	2,276	2,315
15,200	**15,250**	2,284	2,284	2,329
15,250	**15,300**	2,291	2,291	2,343
15,300	**15,350**	2,299	2,299	2,357
15,350	**15,400**	2,306	2,306	2,371
15,400	**15,450**	2,314	2,314	2,385
15,450	**15,500**	2,321	2,321	2,399
15,500	**15,550**	2,329	2,329	2,413
15,550	**15,600**	2,336	2,336	2,427
15,600	**15,650**	2,344	2,344	2,441
15,650	**15,700**	2,351	2,351	2,455
15,700	**15,750**	2,359	2,359	2,469
15,750	**15,800**	2,366	2,366	2,483
15,800	**15,850**	2,374	2,374	2,497
15,850	**15,900**	2,381	2,381	2,511
15,900	**15,950**	2,389	2,389	2,525
15,950	**16,000**	2,396	2,396	2,539
16,000				
16,000	**16,050**	2,404	2,404	2,553
16,050	**16,100**	2,411	2,411	2,567
16,100	**16,150**	2,419	2,419	2,581
16,150	**16,200**	2,426	2,426	2,595
16,200	**16,250**	2,434	2,434	2,609
16,250	**16,300**	2,441	2,441	2,623
16,300	**16,350**	2,449	2,449	2,637
16,350	**16,400**	2,456	2,456	2,651
16,400	**16,450**	2,464	2,464	2,665
16,450	**16,500**	2,471	2,471	2,679
16,500	**16,550**	2,479	2,479	2,693
16,550	**16,600**	2,486	2,486	2,707
16,600	**16,650**	2,494	2,494	2,721
16,650	**16,700**	2,501	2,501	2,735
16,700	**16,750**	2,509	2,509	2,749
16,750	**16,800**	2,516	2,516	2,763
16,800	**16,850**	2,524	2,524	2,777
16,850	**16,900**	2,531	2,531	2,791
16,900	**16,950**	2,539	2,539	2,805
16,950	**17,000**	2,546	2,546	2,819
17,000				
17,000	**17,050**	2,554	2,554	2,833
17,050	**17,100**	2,561	2,561	2,847
17,100	**17,150**	2,569	2,569	2,861
17,150	**17,200**	2,576	2,576	2,875
17,200	**17,250**	2,584	2,584	2,889
17,250	**17,300**	2,591	2,591	2,903
17,300	**17,350**	2,599	2,599	2,917
17,350	**17,400**	2,606	2,606	2,931
17,400	**17,450**	2,614	2,614	2,945
17,450	**17,500**	2,621	2,621	2,959
17,500	**17,550**	2,629	2,629	2,973
17,550	**17,600**	2,636	2,636	2,987
17,600	**17,650**	2,644	2,644	3,001
17,650	**17,700**	2,651	2,651	3,015
17,700	**17,750**	2,659	2,659	3,029
17,750	**17,800**	2,666	2,666	3,043
17,800	**17,850**	2,674	2,674	3,057
17,850	**17,900**	2,685	2,681	3,071
17,900	**17,950**	2,699	2,689	3,085
17,950	**18,000**	2,713	2,696	3,099
18,000				
18,000	**18,050**	2,727	2,704	3,113
18,050	**18,100**	2,741	2,711	3,127
18,100	**18,150**	2,755	2,719	3,141
18,150	**18,200**	2,769	2,726	3,155
18,200	**18,250**	2,783	2,734	3,169
18,250	**18,300**	2,797	2,741	3,183
18,300	**18,350**	2,811	2,749	3,197
18,350	**18,400**	2,825	2,756	3,211
18,400	**18,450**	2,839	2,764	3,225
18,450	**18,500**	2,853	2,771	3,239
18,500	**18,550**	2,867	2,779	3,253
18,550	**18,600**	2,881	2,786	3,267
18,600	**18,650**	2,895	2,794	3,281
18,650	**18,700**	2,909	2,801	3,295
18,700	**18,750**	2,923	2,809	3,309
18,750	**18,800**	2,937	2,816	3,323
18,800	**18,850**	2,951	2,824	3,337
18,850	**18,900**	2,965	2,831	3,351
18,900	**18,950**	2,979	2,839	3,365
18,950	**19,000**	2,993	2,846	3,379
19,000				
19,000	**19,050**	3,007	2,854	3,393
19,050	**19,100**	3,021	2,861	3,407
19,100	**19,150**	3,035	2,869	3,421
19,150	**19,200**	3,049	2,876	3,435
19,200	**19,250**	3,063	2,884	3,449
19,250	**19,300**	3,077	2,891	3,463
19,300	**19,350**	3,091	2,899	3,477
19,350	**19,400**	3,105	2,906	3,491
19,400	**19,450**	3,119	2,914	3,505
19,450	**19,500**	3,133	2,921	3,519
19,500	**19,550**	3,147	2,929	3,533
19,550	**19,600**	3,161	2,936	3,547
19,600	**19,650**	3,175	2,944	3,561
19,650	**19,700**	3,189	2,951	3,575
19,700	**19,750**	3,203	2,959	3,589
19,750	**19,800**	3,217	2,966	3,603
19,800	**19,850**	3,231	2,974	3,617
19,850	**19,900**	3,245	2,981	3,631
19,900	**19,950**	3,259	2,989	3,645
19,950	**20,000**	3,273	2,996	3,659
20,000				
20,000	**20,050**	3,287	3,004	3,673
20,050	**20,100**	3,301	3,011	3,687
20,100	**20,150**	3,315	3,019	3,701
20,150	**20,200**	3,329	3,026	3,715
20,200	**20,250**	3,343	3,034	3,729
20,250	**20,300**	3,357	3,041	3,743
20,300	**20,350**	3,371	3,049	3,757
20,350	**20,400**	3,385	3,056	3,771
20,400	**20,450**	3,399	3,064	3,785
20,450	**20,500**	3,413	3,071	3,799
20,500	**20,550**	3,427	3,079	3,813
20,550	**20,600**	3,441	3,086	3,827
20,600	**20,650**	3,455	3,094	3,841
20,650	**20,700**	3,469	3,101	3,855
20,700	**20,750**	3,483	3,109	3,869
20,750	**20,800**	3,497	3,116	3,883
20,800	**20,850**	3,511	3,124	3,897
20,850	**20,900**	3,525	3,131	3,911
20,900	**20,950**	3,539	3,139	3,925
20,950	**21,000**	3,553	3,146	3,939
21,000				
21,000	**21,050**	3,567	3,154	3,953
21,050	**21,100**	3,581	3,161	3,967
21,100	**21,150**	3,595	3,169	3,981
21,150	**21,200**	3,609	3,176	3,995
21,200	**21,250**	3,623	3,184	4,009
21,250	**21,300**	3,637	3,191	4,023
21,300	**21,350**	3,651	3,199	4,037
21,350	**21,400**	3,665	3,206	4,051
21,400	**21,450**	3,679	3,214	4,065
21,450	**21,500**	3,693	3,221	4,079
21,500	**21,550**	3,707	3,229	4,093
21,550	**21,600**	3,721	3,236	4,107
21,600	**21,650**	3,735	3,244	4,121
21,650	**21,700**	3,749	3,251	4,135
21,700	**21,750**	3,763	3,259	4,149
21,750	**21,800**	3,777	3,266	4,163
21,800	**21,850**	3,791	3,274	4,177
21,850	**21,900**	3,805	3,281	4,191
21,900	**21,950**	3,819	3,289	4,205
21,950	**22,000**	3,833	3,296	4,219
22,000				
22,000	**22,050**	3,847	3,304	4,233
22,050	**22,100**	3,861	3,311	4,247
22,100	**22,150**	3,875	3,319	4,261
22,150	**22,200**	3,889	3,326	4,275
22,200	**22,250**	3,903	3,334	4,289
22,250	**22,300**	3,917	3,341	4,303
22,300	**22,350**	3,931	3,349	4,317
22,350	**22,400**	3,945	3,356	4,331
22,400	**22,450**	3,959	3,364	4,345
22,450	**22,500**	3,973	3,371	4,359
22,500	**22,550**	3,987	3,379	4,373
22,550	**22,600**	4,001	3,386	4,387
22,600	**22,650**	4,015	3,394	4,401
22,650	**22,700**	4,029	3,401	4,415
22,700	**22,750**	4,043	3,409	4,429
22,750	**22,800**	4,057	3,416	4,443
22,800	**22,850**	4,071	3,424	4,457
22,850	**22,900**	4,085	3,431	4,471
22,900	**22,950**	4,099	3,439	4,485
22,950	**23,000**	4,113	3,446	4,499

Continued on next page

1988 Tax Table—*Continued*

If line 36 (taxable income) is—		And you are—		
At least	But less than	Single	Qualifying widow(er)	Married filing separately
		Your tax is—		
23,000				
23,000	23,050	4,127	3,454	4,513
23,050	23,100	4,141	3,461	4,527
23,100	23,150	4,155	3,469	4,541
23,150	23,200	4,169	3,476	4,555
23,200	23,250	4,183	3,484	4,569
23,250	23,300	4,197	3,491	4,583
23,300	23,350	4,211	3,499	4,597
23,350	23,400	4,225	3,506	4,611
23,400	23,450	4,239	3,514	4,625
23,450	23,500	4,253	3,521	4,639
23,500	23,550	4,267	3,529	4,653
23,550	23,600	4,281	3,536	4,667
23,600	23,650	4,295	3,544	4,681
23,650	23,700	4,309	3,551	4,695
23,700	23,750	4,323	3,559	4,709
23,750	23,800	4,337	3,566	4,723
23,800	23,850	4,351	3,574	4,737
23,850	23,900	4,365	3,581	4,751
23,900	23,950	4,379	3,589	4,765
23,950	24,000	4,393	3,596	4,779
24,000				
24,000	24,050	4,407	3,604	4,793
24,050	24,100	4,421	3,611	4,807
24,100	24,150	4,435	3,619	4,821
24,150	24,200	4,449	3,626	4,835
24,200	24,250	4,463	3,634	4,849
24,250	24,300	4,477	3,641	4,863
24,300	24,350	4,491	3,649	4,877
24,350	24,400	4,505	3,656	4,891
24,400	24,450	4,519	3,664	4,905
24,450	24,500	4,533	3,671	4,919
24,500	24,550	4,547	3,679	4,933
24,550	24,600	4,561	3,686	4,947
24,600	24,650	4,575	3,694	4,961
24,650	24,700	4,589	3,701	4,975
24,700	24,750	4,603	3,709	4,989
24,750	24,800	4,617	3,716	5,003
24,800	24,850	4,631	3,724	5,017
24,850	24,900	4,645	3,731	5,031
24,900	24,950	4,659	3,739	5,045
24,950	25,000	4,673	3,746	5,059
25,000				
25,000	25,050	4,687	3,754	5,073
25,050	25,100	4,701	3,761	5,087
25,100	25,150	4,715	3,769	5,101
25,150	25,200	4,729	3,776	5,115
25,200	25,250	4,743	3,784	5,129
25,250	25,300	4,757	3,791	5,143
25,300	25,350	4,771	3,799	5,157
25,350	25,400	4,785	3,806	5,171
25,400	25,450	4,799	3,814	5,185
25,450	25,500	4,813	3,821	5,199
25,500	25,550	4,827	3,829	5,213
25,550	25,600	4,841	3,836	5,227
25,600	25,650	4,855	3,844	5,241
25,650	25,700	4,869	3,851	5,255
25,700	25,750	4,883	3,859	5,269
25,750	25,800	4,897	3,866	5,283
25,800	25,850	4,911	3,874	5,297
25,850	25,900	4,925	3,881	5,311
25,900	25,950	4,939	3,889	5,325
25,950	26,000	4,953	3,896	5,339
26,000				
26,000	26,050	4,967	3,904	5,353
26,050	26,100	4,981	3,911	5,367
26,100	26,150	4,995	3,919	5,381
26,150	26,200	5,009	3,926	5,395
26,200	26,250	5,023	3,934	5,409
26,250	26,300	5,037	3,941	5,423
26,300	26,350	5,051	3,949	5,437
26,350	26,400	5,065	3,956	5,451
26,400	26,450	5,079	3,964	5,465
26,450	26,500	5,093	3,971	5,479
26,500	26,550	5,107	3,979	5,493
26,550	26,600	5,121	3,986	5,507
26,600	26,650	5,135	3,994	5,521
26,650	26,700	5,149	4,001	5,535
26,700	26,750	5,163	4,009	5,549
26,750	26,800	5,177	4,016	5,563
26,800	26,850	5,191	4,024	5,577
26,850	26,900	5,205	4,031	5,591
26,900	26,950	5,219	4,039	5,605
26,950	27,000	5,233	4,046	5,619
27,000				
27,000	27,050	5,247	4,054	5,633
27,050	27,100	5,261	4,061	5,647
27,100	27,150	5,275	4,069	5,661
27,150	27,200	5,289	4,076	5,675
27,200	27,250	5,303	4,084	5,689
27,250	27,300	5,317	4,091	5,703
27,300	27,350	5,331	4,099	5,717
27,350	27,400	5,345	4,106	5,731
27,400	27,450	5,359	4,114	5,745
27,450	27,500	5,373	4,121	5,759
27,500	27,550	5,387	4,129	5,773
27,550	27,600	5,401	4,136	5,787
27,600	27,650	5,415	4,144	5,801
27,650	27,700	5,429	4,151	5,815
27,700	27,750	5,443	4,159	5,829
27,750	27,800	5,457	4,166	5,843
27,800	27,850	5,471	4,174	5,857
27,850	27,900	5,485	4,181	5,871
27,900	27,950	5,499	4,189	5,885
27,950	28,000	5,513	4,196	5,899
28,000				
28,000	28,050	5,527	4,204	5,913
28,050	28,100	5,541	4,211	5,927
28,100	28,150	5,555	4,219	5,941
28,150	28,200	5,569	4,226	5,955
28,200	28,250	5,583	4,234	5,969
28,250	28,300	5,597	4,241	5,983
28,300	28,350	5,611	4,249	5,997
28,350	28,400	5,625	4,256	6,011
28,400	28,450	5,639	4,264	6,025
28,450	28,500	5,653	4,271	6,039
28,500	28,550	5,667	4,279	6,053
28,550	28,600	5,681	4,286	6,067
28,600	28,650	5,695	4,294	6,081
28,650	28,700	5,709	4,301	6,095
28,700	28,750	5,723	4,309	6,109
28,750	28,800	5,737	4,316	6,123
28,800	28,850	5,751	4,324	6,137
28,850	28,900	5,765	4,331	6,151
28,900	28,950	5,779	4,339	6,165
28,950	29,000	5,793	4,346	6,179
29,000				
29,000	29,050	5,807	4,354	6,193
29,050	29,100	5,821	4,361	6,207
29,100	29,150	5,835	4,369	6,221
29,150	29,200	5,849	4,376	6,235
29,200	29,250	5,863	4,384	6,249
29,250	29,300	5,877	4,391	6,263
29,300	29,350	5,891	4,399	6,277
29,350	29,400	5,905	4,406	6,291
29,400	29,450	5,919	4,414	6,305
29,450	29,500	5,933	4,421	6,319
29,500	29,550	5,947	4,429	6,333
29,550	29,600	5,961	4,436	6,347
29,600	29,650	5,975	4,444	6,361
29,650	29,700	5,989	4,451	6,375
29,700	29,750	6,003	4,459	6,389
29,750	29,800	6,017	4,470	6,403
29,800	29,850	6,031	4,484	6,417
29,850	29,900	6,045	4,498	6,431
29,900	29,950	6,059	4,512	6,445
29,950	30,000	6,073	4,526	6,459
30,000				
30,000	30,050	6,087	4,540	6,473
30,050	30,100	6,101	4,554	6,487
30,100	30,150	6,115	4,568	6,501
30,150	30,200	6,129	4,582	6,515
30,200	30,250	6,143	4,596	6,529
30,250	30,300	6,157	4,610	6,543
30,300	30,350	6,171	4,624	6,557
30,350	30,400	6,185	4,638	6,571
30,400	30,450	6,199	4,652	6,585
30,450	30,500	6,213	4,666	6,599
30,500	30,550	6,227	4,680	6,613
30,550	30,600	6,241	4,694	6,627
30,600	30,650	6,255	4,708	6,641
30,650	30,700	6,269	4,722	6,655
30,700	30,750	6,283	4,736	6,669
30,750	30,800	6,297	4,750	6,683
30,800	30,850	6,311	4,764	6,697
30,850	30,900	6,325	4,778	6,711
30,900	30,950	6,339	4,792	6,725
30,950	31,000	6,353	4,806	6,739
31,000				
31,000	31,050	6,367	4,820	6,753
31,050	31,100	6,381	4,834	6,767
31,100	31,150	6,395	4,848	6,781
31,150	31,200	6,409	4,862	6,795
31,200	31,250	6,423	4,876	6,809
31,250	31,300	6,437	4,890	6,823
31,300	31,350	6,451	4,904	6,837
31,350	31,400	6,465	4,918	6,851
31,400	31,450	6,479	4,932	6,865
31,450	31,500	6,493	4,946	6,879
31,500	31,550	6,507	4,960	6,893
31,550	31,600	6,521	4,974	6,907
31,600	31,650	6,535	4,988	6,921
31,650	31,700	6,549	5,002	6,935
31,700	31,750	6,563	5,016	6,949
31,750	31,800	6,577	5,030	6,963
31,800	31,850	6,591	5,044	6,977
31,850	31,900	6,605	5,058	6,991
31,900	31,950	6,619	5,072	7,005
31,950	32,000	6,633	5,086	7,019

Continued on next page

1988 Tax Table—*Continued*

If line 36 (taxable income) is—		And you are—		
At least	But less than	Single	Qualifying widow(er)	Married filing separately
		Your tax is—		
32,000				
32,000	**32,050**	6,647	5,100	7,033
32,050	**32,100**	6,661	5,114	7,047
32,100	**32,150**	6,675	5,128	7,061
32,150	**32,200**	6,689	5,142	7,075
32,200	**32,250**	6,703	5,156	7,089
32,250	**32,300**	6,717	5,170	7,103
32,300	**32,350**	6,731	5,184	7,117
32,350	**32,400**	6,745	5,198	7,131
32,400	**32,450**	6,759	5,212	7,145
32,450	**32,500**	6,773	5,226	7,159
32,500	**32,550**	6,787	5,240	7,173
32,550	**32,600**	6,801	5,254	7,187
32,600	**32,650**	6,815	5,268	7,201
32,650	**32,700**	6,829	5,282	7,215
32,700	**32,750**	6,843	5,296	7,229
32,750	**32,800**	6,857	5,310	7,243
32,800	**32,850**	6,871	5,324	7,257
32,850	**32,900**	6,885	5,338	7,271
32,900	**32,950**	6,899	5,352	7,285
32,950	**33,000**	6,913	5,366	7,299
33,000				
33,000	**33,050**	6,927	5,380	7,313
33,050	**33,100**	6,941	5,394	7,327
33,100	**33,150**	6,955	5,408	7,341
33,150	**33,200**	6,969	5,422	7,355
33,200	**33,250**	6,983	5,436	7,369
33,250	**33,300**	6,997	5,450	7,383
33,300	**33,350**	7,011	5,464	7,397
33,350	**33,400**	7,025	5,478	7,411
33,400	**33,450**	7,039	5,492	7,425
33,450	**33,500**	7,053	5,506	7,439
33,500	**33,550**	7,067	5,520	7,453
33,550	**33,600**	7,081	5,534	7,467
33,600	**33,650**	7,095	5,548	7,481
33,650	**33,700**	7,109	5,562	7,495
33,700	**33,750**	7,123	5,576	7,509
33,750	**33,800**	7,137	5,590	7,523
33,800	**33,850**	7,151	5,604	7,537
33,850	**33,900**	7,165	5,618	7,551
33,900	**33,950**	7,179	5,632	7,565
33,950	**34,000**	7,193	5,646	7,579
34,000				
34,000	**34,050**	7,207	5,660	7,593
34,050	**34,100**	7,221	5,674	7,607
34,100	**34,150**	7,235	5,688	7,621
34,150	**34,200**	7,249	5,702	7,635
34,200	**34,250**	7,263	5,716	7,649
34,250	**34,300**	7,277	5,730	7,663
34,300	**34,350**	7,291	5,744	7,677
34,350	**34,400**	7,305	5,758	7,691
34,400	**34,450**	7,319	5,772	7,705
34,450	**34,500**	7,333	5,786	7,719
34,500	**34,550**	7,347	5,800	7,733
34,550	**34,600**	7,361	5,814	7,747
34,600	**34,650**	7,375	5,828	7,761
34,650	**34,700**	7,389	5,842	7,775
34,700	**34,750**	7,403	5,856	7,789
34,750	**34,800**	7,417	5,870	7,803
34,800	**34,850**	7,431	5,884	7,817
34,850	**34,900**	7,445	5,898	7,831
34,900	**34,950**	7,459	5,912	7,845
34,950	**35,000**	7,473	5,926	7,859
35,000				
35,000	**35,050**	7,487	5,940	7,873
35,050	**35,100**	7,501	5,954	7,887
35,100	**35,150**	7,515	5,968	7,901
35,150	**35,200**	7,529	5,982	7,915
35,200	**35,250**	7,543	5,996	7,929
35,250	**35,300**	7,557	6,010	7,943
35,300	**35,350**	7,571	6,024	7,957
35,350	**35,400**	7,585	6,038	7,971
35,400	**35,450**	7,599	6,052	7,985
35,450	**35,500**	7,613	6,066	7,999
35,500	**35,550**	7,627	6,080	8,013
35,550	**35,600**	7,641	6,094	8,027
35,600	**35,650**	7,655	6,108	8,041
35,650	**35,700**	7,669	6,122	8,055
35,700	**35,750**	7,683	6,136	8,069
35,750	**35,800**	7,697	6,150	8,083
35,800	**35,850**	7,711	6,164	8,097
35,850	**35,900**	7,725	6,178	8,111
35,900	**35,950**	7,739	6,192	8,125
35,950	**36,000**	7,753	6,206	8,141
36,000				
36,000	**36,050**	7,767	6,220	8,157
36,050	**36,100**	7,781	6,234	8,174
36,100	**36,150**	7,795	6,248	8,190
36,150	**36,200**	7,809	6,262	8,207
36,200	**36,250**	7,823	6,276	8,223
36,250	**36,300**	7,837	6,290	8,240
36,300	**36,350**	7,851	6,304	8,256
36,350	**36,400**	7,865	6,318	8,273
36,400	**36,450**	7,879	6,332	8,289
36,450	**36,500**	7,893	6,346	8,306
36,500	**36,550**	7,907	6,360	8,322
36,550	**36,600**	7,921	6,374	8,339
36,600	**36,650**	7,935	6,388	8,355
36,650	**36,700**	7,949	6,402	8,372
36,700	**36,750**	7,963	6,416	8,388
36,750	**36,800**	7,977	6,430	8,405
36,800	**36,850**	7,991	6,444	8,421
36,850	**36,900**	8,005	6,458	8,438
36,900	**36,950**	8,019	6,472	8,454
36,950	**37,000**	8,033	6,486	8,471
37,000				
37,000	**37,050**	8,047	6,500	8,487
37,050	**37,100**	8,061	6,514	8,504
37,100	**37,150**	8,075	6,528	8,520
37,150	**37,200**	8,089	6,542	8,537
37,200	**37,250**	8,103	6,556	8,553
37,250	**37,300**	8,117	6,570	8,570
37,300	**37,350**	8,131	6,584	8,586
37,350	**37,400**	8,145	6,598	8,603
37,400	**37,450**	8,159	6,612	8,619
37,450	**37,500**	8,173	6,626	8,636
37,500	**37,550**	8,187	6,640	8,652
37,550	**37,600**	8,201	6,654	8,669
37,600	**37,650**	8,215	6,668	8,685
37,650	**37,700**	8,229	6,682	8,702
37,700	**37,750**	8,243	6,696	8,718
37,750	**37,800**	8,257	6,710	8,735
37,800	**37,850**	8,271	6,724	8,751
37,850	**37,900**	8,285	6,738	8,768
37,900	**37,950**	8,299	6,752	8,784
37,950	**38,000**	8,313	6,766	8,801
38,000				
38,000	**38,050**	8,327	6,780	8,817
38,050	**38,100**	8,341	6,794	8,834
38,100	**38,150**	8,355	6,808	8,850
38,150	**38,200**	8,369	6,822	8,867
38,200	**38,250**	8,383	6,836	8,883
38,250	**38,300**	8,397	6,850	8,900
38,300	**38,350**	8,411	6,864	8,916
38,350	**38,400**	8,425	6,878	8,933
38,400	**38,450**	8,439	6,892	8,949
38,450	**38,500**	8,453	6,906	8,966
38,500	**38,550**	8,467	6,920	8,982
38,550	**38,600**	8,481	6,934	8,999
38,600	**38,650**	8,495	6,948	9,015
38,650	**38,700**	8,509	6,962	9,032
38,700	**38,750**	8,523	6,976	9,048
38,750	**38,800**	8,537	6,990	9,065
38,800	**38,850**	8,551	7,004	9,081
38,850	**38,900**	8,565	7,018	9,098
38,900	**38,950**	8,579	7,032	9,114
38,950	**39,000**	8,593	7,046	9,131
39,000				
39,000	**39,050**	8,607	7,060	9,147
39,050	**39,100**	8,621	7,074	9,164
39,100	**39,150**	8,635	7,088	9,180
39,150	**39,200**	8,649	7,102	9,197
39,200	**39,250**	8,663	7,116	9,213
39,250	**39,300**	8,677	7,130	9,230
39,300	**39,350**	8,691	7,144	9,246
39,350	**39,400**	8,705	7,158	9,263
39,400	**39,450**	8,719	7,172	9,279
39,450	**39,500**	8,733	7,186	9,296
39,500	**39,550**	8,747	7,200	9,312
39,550	**39,600**	8,761	7,214	9,329
39,600	**39,650**	8,775	7,228	9,345
39,650	**39,700**	8,789	7,242	9,362
39,700	**39,750**	8,803	7,256	9,378
39,750	**39,800**	8,817	7,270	9,395
39,800	**39,850**	8,831	7,284	9,411
39,850	**39,900**	8,845	7,298	9,428
39,900	**39,950**	8,859	7,312	9,444
39,950	**40,000**	8,873	7,326	9,461
40,000				
40,000	**40,050**	8,887	7,340	9,477
40,050	**40,100**	8,901	7,354	9,494
40,100	**40,150**	8,915	7,368	9,510
40,150	**40,200**	8,929	7,382	9,527
40,200	**40,250**	8,943	7,396	9,543
40,250	**40,300**	8,957	7,410	9,560
40,300	**40,350**	8,971	7,424	9,576
40,350	**40,400**	8,985	7,438	9,593
40,400	**40,450**	8,999	7,452	9,609
40,450	**40,500**	9,013	7,466	9,626
40,500	**40,550**	9,027	7,480	9,642
40,550	**40,600**	9,041	7,494	9,659
40,600	**40,650**	9,055	7,508	9,675
40,650	**40,700**	9,069	7,522	9,692
40,700	**40,750**	9,083	7,536	9,708
40,750	**40,800**	9,097	7,550	9,725
40,800	**40,850**	9,111	7,564	9,741
40,850	**40,900**	9,125	7,578	9,758
40,900	**40,950**	9,139	7,592	9,774
40,950	**41,000**	9,153	7,606	9,791

Continued on next page

If line 36 (taxable income) is—		And you are—		
At least	But less than	Single	Qualifying widow(er)	Married filing separately
		Your tax is—		
41,000				
41,000	41,050	9,167	7,620	9,807
41,050	41,100	9,181	7,634	9,824
41,100	41,150	9,195	7,648	9,840
41,150	41,200	9,209	7,662	9,857
41,200	41,250	9,223	7,676	9,873
41,250	41,300	9,237	7,690	9,890
41,300	41,350	9,251	7,704	9,906
41,350	41,400	9,265	7,718	9,923
41,400	41,450	9,279	7,732	9,939
41,450	41,500	9,293	7,746	9,956
41,500	41,550	9,307	7,760	9,972
41,550	41,600	9,321	7,774	9,989
41,600	41,650	9,335	7,788	10,005
41,650	41,700	9,349	7,802	10,022
41,700	41,750	9,363	7,816	10,038
41,750	41,800	9,377	7,830	10,055
41,800	41,850	9,391	7,844	10,071
41,850	41,900	9,405	7,858	10,088
41,900	41,950	9,419	7,872	10,104
41,950	42,000	9,433	7,886	10,121
42,000				
42,000	42,050	9,447	7,900	10,137
42,050	42,100	9,461	7,914	10,154
42,100	42,150	9,475	7,928	10,170
42,150	42,200	9,489	7,942	10,187
42,200	42,250	9,503	7,956	10,203
42,250	42,300	9,517	7,970	10,220
42,300	42,350	9,531	7,984	10,236
42,350	42,400	9,545	7,998	10,253
42,400	42,450	9,559	8,012	10,269
42,450	42,500	9,573	8,026	10,286
42,500	42,550	9,587	8,040	10,302
42,550	42,600	9,601	8,054	10,319
42,600	42,650	9,615	8,068	10,335
42,650	42,700	9,629	8,082	10,352
42,700	42,750	9,643	8,096	10,368
42,750	42,800	9,657	8,110	10,385
42,800	42,850	9,671	8,124	10,401
42,850	42,900	9,685	8,138	10,418
42,900	42,950	9,699	8,152	10,434
42,950	43,000	9,713	8,166	10,451
43,000				
43,000	43,050	9,727	8,180	10,467
43,050	43,100	9,741	8,194	10,484
43,100	43,150	9,755	8,208	10,500
43,150	43,200	9,770	8,222	10,517
43,200	43,250	9,786	8,236	10,533
43,250	43,300	9,803	8,250	10,550
43,300	43,350	9,819	8,264	10,566
43,350	43,400	9,836	8,278	10,583
43,400	43,450	9,852	8,292	10,599
43,450	43,500	9,869	8,306	10,616
43,500	43,550	9,885	8,320	10,632
43,550	43,600	9,902	8,334	10,649
43,600	43,650	9,918	8,348	10,665
43,650	43,700	9,935	8,362	10,682
43,700	43,750	9,951	8,376	10,698
43,750	43,800	9,968	8,390	10,715
43,800	43,850	9,984	8,404	10,731
43,850	43,900	10,001	8,418	10,748
43,900	43,950	10,017	8,432	10,764
43,950	44,000	10,034	8,446	10,781

If line 36 (taxable income) is—		And you are—		
At least	But less than	Single	Qualifying widow(er)	Married filing separately
		Your tax is—		
44,000				
44,000	44,050	10,050	8,460	10,797
44,050	44,100	10,067	8,474	10,814
44,100	44,150	10,083	8,488	10,830
44,150	44,200	10,100	8,502	10,847
44,200	44,250	10,116	8,516	10,863
44,250	44,300	10,133	8,530	10,880
44,300	44,350	10,149	8,544	10,896
44,350	44,400	10,166	8,558	10,913
44,400	44,450	10,182	8,572	10,929
44,450	44,500	10,199	8,586	10,946
44,500	44,550	10,215	8,600	10,962
44,550	44,600	10,232	8,614	10,979
44,600	44,650	10,248	8,628	10,995
44,650	44,700	10,265	8,642	11,012
44,700	44,750	10,281	8,656	11,028
44,750	44,800	10,298	8,670	11,045
44,800	44,850	10,314	8,684	11,061
44,850	44,900	10,331	8,698	11,078
44,900	44,950	10,347	8,712	11,094
44,950	45,000	10,364	8,726	11,111
45,000				
45,000	45,050	10,380	8,740	11,127
45,050	45,100	10,397	8,754	11,144
45,100	45,150	10,413	8,768	11,160
45,150	45,200	10,430	8,782	11,177
45,200	45,250	10,446	8,796	11,193
45,250	45,300	10,463	8,810	11,210
45,300	45,350	10,479	8,824	11,226
45,350	45,400	10,496	8,838	11,243
45,400	45,450	10,512	8,852	11,259
45,450	45,500	10,529	8,866	11,276
45,500	45,550	10,545	8,880	11,292
45,550	45,600	10,562	8,894	11,309
45,600	45,650	10,578	8,908	11,325
45,650	45,700	10,595	8,922	11,342
45,700	45,750	10,611	8,936	11,358
45,750	45,800	10,628	8,950	11,375
45,800	45,850	10,644	8,964	11,391
45,850	45,900	10,661	8,978	11,408
45,900	45,950	10,677	8,992	11,424
45,950	46,000	10,694	9,006	11,441
46,000				
46,000	46,050	10,710	9,020	11,457
46,050	46,100	10,727	9,034	11,474
46,100	46,150	10,743	9,048	11,490
46,150	46,200	10,760	9,062	11,507
46,200	46,250	10,776	9,076	11,523
46,250	46,300	10,793	9,090	11,540
46,300	46,350	10,809	9,104	11,556
46,350	46,400	10,826	9,118	11,573
46,400	46,450	10,842	9,132	11,589
46,450	46,500	10,859	9,146	11,606
46,500	46,550	10,875	9,160	11,622
46,550	46,600	10,892	9,174	11,639
46,600	46,650	10,908	9,188	11,655
46,650	46,700	10,925	9,202	11,672
46,700	46,750	10,941	9,216	11,688
46,750	46,800	10,958	9,230	11,705
46,800	46,850	10,974	9,244	11,721
46,850	46,900	10,991	9,258	11,738
46,900	46,950	11,007	9,272	11,754
46,950	47,000	11,024	9,286	11,771

If line 36 (taxable income) is—		And you are—		
At least	But less than	Single	Qualifying widow(er)	Married filing separately
		Your tax is—		
47,000				
47,000	47,050	11,040	9,300	11,787
47,050	47,100	11,057	9,314	11,804
47,100	47,150	11,073	9,328	11,820
47,150	47,200	11,090	9,342	11,837
47,200	47,250	11,106	9,356	11,853
47,250	47,300	11,123	9,370	11,870
47,300	47,350	11,139	9,384	11,886
47,350	47,400	11,156	9,398	11,903
47,400	47,450	11,172	9,412	11,919
47,450	47,500	11,189	9,426	11,936
47,500	47,550	11,205	9,440	11,952
47,550	47,600	11,222	9,454	11,969
47,600	47,650	11,238	9,468	11,985
47,650	47,700	11,255	9,482	12,002
47,700	47,750	11,271	9,496	12,018
47,750	47,800	11,288	9,510	12,035
47,800	47,850	11,304	9,524	12,051
47,850	47,900	11,321	9,538	12,068
47,900	47,950	11,337	9,552	12,084
47,950	48,000	11,354	9,566	12,101
48,000				
48,000	48,050	11,370	9,580	12,117
48,050	48,100	11,387	9,594	12,134
48,100	48,150	11,403	9,608	12,150
48,150	48,200	11,420	9,622	12,167
48,200	48,250	11,436	9,636	12,183
48,250	48,300	11,453	9,650	12,200
48,300	48,350	11,469	9,664	12,216
48,350	48,400	11,486	9,678	12,233
48,400	48,450	11,502	9,692	12,249
48,450	48,500	11,519	9,706	12,266
48,500	48,550	11,535	9,720	12,282
48,550	48,600	11,552	9,734	12,299
48,600	48,650	11,568	9,748	12,315
48,650	48,700	11,585	9,762	12,332
48,700	48,750	11,601	9,776	12,348
48,750	48,800	11,618	9,790	12,365
48,800	48,850	11,634	9,804	12,381
48,850	48,900	11,651	9,818	12,398
48,900	48,950	11,667	9,832	12,414
48,950	49,000	11,684	9,846	12,431
49,000				
49,000	49,050	11,700	9,860	12,447
49,050	49,100	11,717	9,874	12,464
49,100	49,150	11,733	9,888	12,480
49,150	48,200	11,750	9,902	12,497
49,200	49,250	11,766	9,916	12,513
49,250	49,300	11,783	9,930	12,530
49,300	49,350	11,799	9,944	12,546
49,350	49,400	11,816	9,958	12,563
49,400	49,450	11,832	9,972	12,579
49,450	49,500	11,849	9,986	12,596
49,500	49,550	11,865	10,000	12,612
49,550	49,600	11,882	10,014	12,629
49,600	49,650	11,898	10,028	12,645
49,650	49,700	11,915	10,042	12,662
49,700	49,750	11,931	10,056	12,678
49,750	49,800	11,948	10,070	12,695
49,800	49,850	11,964	10,084	12,711
49,850	49,900	11,981	10,098	12,728
49,900	49,950	11,997	10,112	12,744
49,950	50,000	12,014	10,126	12,761

50,000 or over—use tax rate schedules

1988 Tax Rate Schedules

If you cannot use the Tax Table because your taxable income is $50,000 or more, or if you are filing for an estate or trust, figure your tax on the amount on Form 1040NR, line 36, by using the appropriate Tax Rate Schedule on this page. Enter the tax on Form 1040NR, line 37.

Schedule W
Estates or Trusts

Use this schedule for a nonresident alien estate or trust—

If the amount on Form 1040NR, line 36, is: Over—	but not over—	Enter on Form 1040NR, line 37:	of the amount over—
$0	$5,000	.......15%	$0
5,000	13,000	**$750 + 28%**	**5,000**
13,000	26,000	**2,990 + 33%**	**13,000**
26,000	....	.......**28%**	**0**

Schedule X
Single Taxpayers

Use this schedule if you checked **Filing Status Box 1 or 2** on Form 1040NR—

If the amount on Form 1040NR, line 36, is: Over—	but not over—	Enter on Form 1040NR, line 37:	of the amount over—
$0	$17,850	.......15%	$0
17,850	43,150	**$2,677.50 + 28%**	**17,850**
43,150	89,560	**9,761.50 + 33%**	**43,150**
89,560	....	Use **Worksheet** below to figure your tax.	

Schedule Y
Married Filing Separate Returns

Use this schedule if you checked **Filing Status Box 3, 4, or 5** on Form 1040NR—

If the amount on Form 1040NR, line 36, is: Over—	but not over—	Enter on Form 1040NR, line 37:	of the amount over—
$0	$14,875	.......15%	$0
14,875	35,950	**$2,231.25 + 28%**	**14,875**
35,950	113,300	**8,132.25 + 33%**	**35,950**
113,300	....	Use **Worksheet** below to figure your tax.	

Schedule Z
Qualifying Widows and Widowers

Use this schedule if you checked **Filing Status Box 6** on Form 1040NR—

If the amount on Form 1040NR, line 36, is: Over—	but not over—	Enter on Form 1040NR, line 37:	of the amount over—
$0	$29,750	.......15%	$0
29,750	71,900	**$4,462.50 + 28%**	**29,750**
71,900	149,250	**16,264.50 + 33%**	**71,900**
149,250	....	Use **Worksheet** below to figure your tax.	

Worksheet (Keep for your records)

1. If your filing status is:
- Single, enter $25,076.80
- Qualifying widow(er), enter $41,790.00
- Married filing separately, enter $33,657.75

. . . . **1.** ________

2. Enter your taxable income from Form 1040NR, line 36 . . . . **2.** ________

3. If your filing status is:
- Single, enter $89,560
- Qualifying widow(er), enter $149,250
- Married filing separately, enter $113,300

. . . . **3.** ________

4. Subtract line 3 from line 2. Enter the result. (If the result is zero or less, use the schedule above for your filing status to figure your tax. DON'T use this worksheet.) . **4.** ________

5. Multiply the amount on line 4 by 28% (.28). Enter the result . . . . **5.** ________

6. Multiply the amount on line 4 by 5% (.05). Enter the result . . . . **6.** ________

7. Multiply $546 by the number of exemptions claimed on Form 1040NR, line 7e. (If married filing separately, see **Caution** below.) Enter the result . . . . **7.** ________

8. Compare the amounts on lines 6 and 7. Enter the **smaller** of the two amounts . . . . **8.** ________

9. **Tax.** Add lines 1, 5, and 8. Enter the total here and on Form 1040NR, line 37 . . . . **9.** ________

Caution: *Pending legislation would require married persons filing separately who did not claim an exemption for their spouse to add $546 to the result otherwise figured on line 7 above. Get* ***Pub 553,*** *Highlights of 1988 Tax Changes, to find out whether this law was passed.*

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Form **1041**
Department of the Treasury
Internal Revenue Service

U.S. Fiduciary Income Tax Return

For the calendar year 1988 or fiscal year

beginning , 1988, and ending , 19

OMB No. 1545-0092

1988

Check applicable boxes:
- ☐ Decedent's estate
- ☐ Simple trust
- ☐ Complex trust
- ☐ Grantor type trust
- ☐ Bankruptcy estate
- ☐ Family estate trust
- ☐ Pooled income fund
- ☐ Initial return
- ☐ Amended return
- ☐ Final return

Name of estate or trust (grantor type trust, see instructions)

Name and title of fiduciary

Address of fiduciary (number and street or P.O. Box)

City, state, and ZIP code

Number of Schedules K-1 attached *(See instructions)* ▶

Employer identification number

Date entity created

Nonexempt charitable and split interest trusts, check applicable boxes (see instructions):
- ☐ Described in section 4947(a)(1)
- ☐ Not a private foundation
- ☐ Described in section 4947(a)(2)

Income

1	Dividends	1	
2	Interest income	2	
3	Income (or losses) from partnerships, other estates or other trusts (see instructions)	3	
4	Net rent and royalty income (or loss) (attach Schedule E (Form 1040))	4	
5	Net business and farm income (or loss) (attach Schedules C and F (Form 1040))	5	
6	Capital gain (or loss) (attach Schedule D (Form 1041))	6	
7	Ordinary gain (or loss) (attach Form 4797)	7	
8	Other income (state nature of income)	8	
9	**Total** income (add lines 1 through 8) ▶	9	

Deductions

10	Interest	10			
11	Taxes	11			
12	Fiduciary fees	12			
13	Charitable deduction (from Schedule A, line 6)	13			
14	Attorney, accountant, and return preparer fees	14			
15	Other deductions (attach schedule)	15			
16	**Total** (add lines 10 through 15) ▶			16	
17	Adjusted total income (or loss) (subtract line 16 from line 9)			17	
18	Income distribution deduction (from Schedule B, line 17) (see instructions) (attach Schedule K-1 (Form 1041))			18	
19	Estate tax deduction (including generation-skipping transfer taxes) (attach computation)			19	
20	Exemption			20	
21	**Total** (add lines 18 through 20) ▶			21	
22	Taxable income of fiduciary (subtract line 21 from line 17) ▶			22	

Please attach check or money order here

Tax and Payments

23	Total tax (enter amount from line 7, Schedule G)	23	
24a	Payments: 1988 estimated tax payments and amount applied from 1987 return	24a	
b	Treated as paid by trust beneficiaries (attach Form 1041-T)	24b	
c	Subtract line 24b from line 24a	24c	
d	Tax paid with extension of time to file ☐ Form 8736 ☐ Form 8800 ☐ Form 2758	24d	
e	Federal income tax withheld	24e	
	Credits: **f** Form 2439 ; **g** Form 4136 ; **h** Form 6249 ; Total	24i	
25	**Total** (add lines 24c through 24e, and 24i) ▶	25	
26	If line 23 is larger than line 25, enter **TAX DUE**	26	
27	If line 25 is larger than line 23, enter **OVERPAYMENT**	27	
28	Amount of line 27 to be: **a Credited to 1989 estimated tax** ▶ ; **b Refunded** ▶	28	
29	**Penalty** for underpayment of estimated tax. Check ☐ if Form 2210 (Form 2210F) is attached	29	

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than fiduciary) is based on all information of which preparer has any knowledge.

▶ Signature of fiduciary or officer representing fiduciary | Date | ▶ EIN of fiduciary *(see instructions)*

Paid Preparer's Use Only

Preparer's signature ▶ | Date | Check if self-employed ▶ ☐ | Preparer's social security no.

Firm's name (or yours if self-employed) and address ▶ | E.I. No. ▶ | ZIP code ▶

For Paperwork Reduction Act Notice, see page 1 of the instructions.

Form **1041** (1988)

Schedule A Charitable Deduction—*Do not complete for a simple trust or a pooled income fund.*

(Write the name and address of each charitable organization to whom your contributions total $3,000 or more on an attached sheet.)

1	Amounts paid or permanently set aside for charitable purposes from current year's gross income	1	
2	Tax-exempt interest allocable to charitable distribution (see instructions)	2	
3	Balance (subtract line 2 from line 1)	3	
4	Enter the net short-term capital gain and the net long-term capital gain of the current tax year allocable to corpus paid or permanently set aside for charitable purposes	4	
5	Amounts paid or permanently set aside for charitable purposes from gross income of a prior year (see instructions)	5	
6	Total (add lines 3, 4, and 5). Enter here and on page 1, line 13	6	

Schedule B Income Distribution Deduction (See instructions)

1	Adjusted total income (Enter amount from page 1, line 17.) (see instructions)			1	
2	Adjusted tax-exempt interest (see instructions)			2	
3	Net gain shown on Schedule D (Form 1041), line 17, column (a) (If net loss, enter zero.)			3	
4	Enter amount from Schedule A, line 4			4	
5	Long-term capital gain included on Schedule A, line 1			5	
6	Short-term capital gain included on Schedule A, line 1			6	
7	If the amount on page 1, line 6, is a capital loss, enter here as a positive figure			7	
8	If the amount on page 1, line 6, is a capital gain, enter here as a negative figure			8	
9	Distributable net income (combine lines 1 through 8)			9	
10	Amount of income for the tax year determined under the governing instrument (accounting income)	10		▨	
11	Amount of income required to be distributed currently (see instructions)			11	
12	Other amounts paid, credited, or otherwise required to be distributed (see instructions)			12	
13	Total distributions (add lines 11 and 12). (If greater than line 10, see instructions.)			13	
14	Enter the total amount of tax-exempt income included on line 13			14	
15	Tentative income distribution deduction (subtract line 14 from line 13)			15	
16	Tentative income distribution deduction (subtract line 2 from line 9).			16	
17	Income distribution deduction (Enter the smaller of line 15 or line 16 here and on page 1, line 18.)			17	

Schedule G Tax Computation (See instructions)

1	Tax: **a** Tax rate schedule ....; **b** Other tax .... ; Total ▶			1c	
2a	Foreign tax credit (attach Form 1116)	2a		▨	
b	Credit for fuel produced from a nonconventional source	2b		▨	
c	General business credit. Check which forms are attached: ☐ Form 3800 ☐ Form 3468 ☐ Form 5884 ☐ Form 6478 ☐ Form 6765 ☐ Form 8586	2c		▨	
d	Credit for prior year minimum tax (attach Form 8801)	2d		▨	
3	**Total** (add lines 2a through 2d) ▶			3	
4	Subtract line 3 from line 1c			4	
5	Recapture taxes. Check if from: ☐ Form 4255 ☐ Form 8611			5	
6	Alternative minimum tax (attach Form 8656)			6	
7	**Total** (add lines 4 through 6). Enter here and on line 23, page 1 ▶			7	

Other Information

		Yes	No
1	If the fiduciary's name or address has changed, enter the old information ▶	▨	▨
2	Did the estate or trust receive tax-exempt income? (If "Yes," attach a computation of the allocation of expenses.) Enter the amount of tax-exempt interest income ▶ $....................		
3	Did the estate or trust have any passive activity loss(es)? (If "Yes," enter the amount of any such loss(es) on **Form 8582**, Passive Activity Loss Limitations, to figure the allowable loss.)		
4	Did the estate or trust receive all or any part of the earnings (salary, wages, and other compensation) of any individual by reason of a contract assignment or similar arrangement?		
5	At any time during the tax year, did the estate or trust have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See the Instructions for exceptions and filing requirements for Form TD F 90-22.1) If "Yes," enter the name of the foreign country ▶		
6	Was the estate or trust the grantor of, or transferor to, a foreign trust which existed during the current tax year, whether or not the estate or trust has any beneficial interest in it? (If "Yes," you may have to file Form 3520, 3520-A, or 926.)		
7	Check this box if this entity has filed or is required to file **Form 8264**, Application for Registration of a Tax Shelter ▶ ☐	▨	▨
8	Check this box if this entity is a complex trust making the section 663(b) election ▶ ☐	▨	▨
9	Check this box if a section 643(e)(3) election is made (attach Schedule D (Form 1041)) ▶ ☐	▨	▨
10	Check this box if the decedent's estate has been open for more than 2 years (see instructions) ▶ ☐	▨	▨

1988

Department of the Treasury
Internal Revenue Service

Instructions for Form 1041 and Schedules A, B, D, G, J, and K-1

U.S. Fiduciary Income Tax Return

(Section references are to the Internal Revenue Code unless otherwise noted.)

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

The time needed to complete and file this form and related schedules will vary depending on individual circumstances. The estimated average times are:

	Form 1041	Schedule D	Schedule J	Schedule K-1
Recordkeeping	2 hrs. 37 min.	59 min.	13 min.	1 hr. 12 min.
Learning about the law or the form	1 hr. 40 min.	14 min.	17 min.	15 min.
Preparing the form	2 hrs. 38 min.	58 min.	58 min.	32 min.
Copying, assembling, and sending the form to IRS	35 min.	28 min.	35 min.	20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making these forms more simple, we would be happy to hear from you. You can write to the **Internal Revenue Service,** Washington, DC 20224, Attention: IRS Reports Clearance Officer, TR:FP; or the **Office of Management and Budget,** Paperwork Reduction Project, Washington, DC 20503.

Changes You Should Note

- For tax years beginning in 1988 new tax rates are in effect for estates and trusts.
- A new Schedule G, Tax Computation, is located on page 2 of Form 1041.
- Both "simple" and "complex" trusts are now required to complete Schedule B, Income Distribution Deduction.
- Some taxpayers have new filing locations. See "Where To File" instructions on page 2.
- For tax years beginning in 1988, the filing requirement for bankruptcy estates has been increased to $4,450.
- Trusts can request an automatic 3-month extension of time to file by using new **Form 8736,** Application for Automatic Extension of Time to File Return for a U.S. Partnership or for Certain Trusts.
- Certain fiduciaries are required to submit estimated tax payments on magnetic tape.
- For tax years beginning in 1988, only 40% of personal interest paid is deductible.

General Instructions

Purpose of Form.—The fiduciary uses Form 1041 to report the income of an estate or trust.

If you, as fiduciary, are required to distribute all of the trust's income currently, you may be able to file the shorter **Form 1041S,** U.S. Fiduciary Income Tax Return for Nontaxable Simple Trusts.

You may find additional helpful information in:

Publication 448, Federal Estate and Gift Taxes;
Publication 550, Investment Income and Expenses; and
Publication 559, Tax Information for Survivors, Executors, and Administrators.

These publications may be ordered from the IRS Forms Distribution Center for your state listed in the instructions for **Form 1040,** U.S. Individual Income Tax Return.

Who Must File

1. *Decedent's Estate.*—The fiduciary (or one of the joint fiduciaries) must file Form 1041 for the estate of a domestic decedent that has:

(a) Gross income for the tax year of $600 or more, or

(b) A beneficiary who is a nonresident alien.

2. *Trust.*—The fiduciary (or one of the joint fiduciaries) must file Form 1041 for a domestic trust taxable under section 641 that has:

(a) Any taxable income for the tax year, or

(b) Gross income of $600 or more regardless of the taxable income, or

(c) A beneficiary who is a nonresident alien.

If you are a fiduciary of a nonresident alien estate or trust, you should file **Form 1040NR**, U.S. Nonresident Alien Income Tax Return.

3. *Bankruptcy Estate.*—The fiduciary must file Form 1041 for the estate of an individual involved in bankruptcy proceedings under chapter 7 or 11 of Title 11 of the United States Code if the estate has gross income for the tax year of $4,450 or more. Use Form 1041 as a transmittal for Form 1040. Figure the tax for the bankruptcy estate by using the tax rate schedule for a married person filing separately and enter the tax on page 2 of Form 1040.

Definitions

Fiduciary.—A fiduciary is a trustee of a trust or the executor, executrix, administrator, administratrix, personal representative, or person in possession of property of a decedent's estate.

Decedent's estate.—An estate of a deceased person is a taxable entity separate from the decedent. It generally continues to exist until the final distribution of the assets of the estate are made to the heirs and other beneficiaries. The income earned by the property of the estate during the period of administration or settlement must be accounted for and reported by the estate.

Simple Trust.—A trust may qualify as "simple" if the trust instrument:

(1) Requires that all income must be distributed currently,

(2) Does not allow amounts to be paid, permanently set aside, or used in the tax year for charitable purposes, and

(3) The trust does not distribute amounts allocated to the corpus of the trust.

Income required to be distributed currently.—Income required to be distributed currently generally means income that is required to be distributed in the year it is received, except as explained in Regulations section 1.651(a)-2.

Complex Trust.—A complex trust is any trust that does not qualify as a simple trust as explained above.

Bankruptcy Estate.—A bankruptcy estate is a separate and distinct taxable entity from the individual debtor. It is created when an individual debtor files for bankruptcy under chapter 7 or 11 of Title 11 of the United States Code. This creates a separate "estate" consisting of property that belongs to the debtor before the filing date. See **Publication 908**, Bankruptcy and Other Debt Cancellation, for more information about an individual's bankruptcy.

Grantor Type Trust.—A grantor type trust is a legal trust under applicable state law that is not recognized as a separate taxable entity for income tax purposes because the grantor or other substantial owners have not relinquished complete dominion and control over the trust. See sections 671 through 678 for more information on the characteristics of a grantor type trust.

Family Estate Trust.—A family estate trust is also known as a family, family estate, pure, equity, equity pure, prime, or constitutional trust.

In most cases, the grantor transfers property to the trust or assigns to the trust the income for services the grantor performs. The trust instrument usually provides:

- Evidence of ownership, such as certificates of beneficial interest in the trust.
- That the grantor is a trustee and executive officer.
- That the trust pays the living expenses for the grantor and the grantor's family.
- That the corpus and undistributed income are distributed to the owners after the trust is terminated.

If the family estate trust is treated as a grantor trust, see the "Grantor Type Trust" instructions. For more information about classification as a grantor trust, see Rev. Rul. 75-257, 1975-2 C.B. 251.

Pooled Income Fund.—A pooled income fund is a split-interest trust with a remainder interest for a public charity and a life income interest retained by the donor or for another person. The property is held in a pool with other pooled income fund property and does not include any tax-exempt securities. The income for a retained life interest is figured using the yearly rate of return earned by the trust. See section 642(c) and the related regulations for more information.

Decedent's Will and Trust Instrument.—You do not have to file a copy of the decedent's will or the trust instrument unless IRS requests it. If IRS requests it, file a copy (including any amendments) with the following:

1. A signed statement that, under the penalties of perjury, the copy of the will or the trust instrument is true and complete.
2. A statement naming the provisions of the will or the trust instrument that you believe determine how the income is to be split up among the estate or trust, the grantor (if applicable), and the beneficiaries.

Additional Returns You May Have To File.—You may also be required to file the following:

Form 1040, U.S. Individual Income Tax Return.

Form 1040NR, U.S. Nonresident Alien Income Tax Return.

Form 1041–A, U.S. Information Return—Trust Accumulation of Charitable Amounts.

Form 1041–ES, Estimated Income Tax for Fiduciaries.

Form 1041–T, Transmittal of Estimated Taxes Credited to Beneficiaries.

Form 56, Notice Concerning Fiduciary Relationship.

Form 706, United States Estate (and Generation-Skipping Transfer) Tax Return; or **Form 706NA**, United States Estate (and Generation-Skipping Transfer) Tax Return, Estate of Nonresident Not a Citizen of the United States.

Form 706GS(D), Generation-Skipping Transfer Tax Return for Distributions.

Form 706GS(D-1), Notification of Distribution From A Generation-Skipping Trust.

Form 706GS(T), Generation-Skipping Transfer Tax Return for Terminations.

Forms 1099-A, B, INT, MISC, OID, R and **S.**

Note: *You may have to file these information returns to report abandonments and acquisitions through foreclosure, proceeds from broker and barter exchange and real estate transactions, interest payments, medical and dental health care payments, miscellaneous income, original issue discount, and total distributions from profit-sharing plans, retirement plans, and individual retirement arrangements.*

Also, use these returns to report amounts that were received as a nominee on behalf of another person.

Some of the above 1099 forms do not have to be filed if it would result in the duplication of income information required to be reported on Schedule K-1 of Form 1041.

Form 8300, Report of Cash Payments Over $10,000 Received in a Trade or Business. See **Publication 916**, Information Returns, for more information.

Period Covered by the Return.—File Form 1041 for the calendar year 1988 or the fiscal year beginning in 1988. A fiscal year can be adopted only by estates, trusts exempt from taxation under section 501(a), and charitable trusts described in section 4947(a)(1). If you do not file for a calendar year, fill in the tax year space at the top of the form.

For an estate, the moment of death determines the end of the decedent's tax year and the beginning of the estate's tax year. The first tax year for the estate may be any period of 12 months or less that ends on the last day of a month. For more information, see Publication 559 and **Publication 538,** Accounting Periods and Methods.

Common Trust Funds.—Trusts that are participants in a Common Trust Fund (CTF) that must include items from more than one tax year of the CTF in 1988 because the CTF was required to adopt the calendar year under section 1008(e) of the Technical and Miscellaneous Revenue Act of 1988 must include ratably in income each of the first 4 tax years beginning after December 31, 1987, income, in excess of expenses, from the short tax year of the CTF.

When To File.—File Form 1041 by the 15th day of the 4th month following the close of the tax year of the estate or trust. For example, file Form 1041 by October 16, 1989, for an estate that has a tax year that ends on June 30, 1989.

Extension of Time To File.—*Estates.*—Use **Form 2758,** Application for Extension of Time To File U.S. Fiduciary, and Other Returns, to apply for an extension of time to file.

Trusts.—Use **Form 8736,** Application for Automatic Extension of Time To File Return for a U.S. Partnership or for Certain Trusts, to request an automatic 3-month extension of time to file. If more time is needed, file **Form 8800,** Application for Additional Extension of Time To File Return for a U.S. Partnership or for Certain Trusts. For more information, see Regulations section 1.6081-3T.

Where To File.—*Except for charitable and split-interest trusts and pooled income funds:*

If you are located in ▼	Please mail to the following Internal Revenue Service Center ▼
New Jersey, New York (New York City, and counties of Nassau, Rockland, Suffolk, and Westchester)	Holtsville, NY 00501
New York (all other counties), Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Florida, Georgia, South Carolina	Atlanta, GA 39901
Indiana, Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888
Illinois, Iowa, Minnesota, Missouri, Wisconsin	Kansas City, MO 64999
Alabama, Arkansas, Louisiana, Mississippi, North Carolina, Tennessee	Memphis, TN 37501
Delaware, District of Columbia, Maryland, Pennsylvania, Virginia, any U.S. possession, or foreign country	Philadelphia, PA 19255

For a charitable or split-interest trust described in section 4947(a) and a pooled income fund defined in section 642(c)(5):

If you are located in ▼	Please mail to the following Internal Revenue Service Center ▼
Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee	Atlanta, GA 39901
Arizona, Colorado, Kansas, New Mexico, Oklahoma, Texas, Utah, Wyoming	Austin, TX 73301
Indiana, Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Alaska, California, Hawaii, Idaho, Nevada, Oregon, Washington	Fresno, CA 93888
Connecticut, Delaware, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania (ZIP codes beginning with 169–171 and 173–196 only), Rhode Island, Vermont	Holtsville, NY 00501
Illinois, Iowa, Minnesota, Missouri, Montana, Nebraska, North Dakota, South Dakota, Wisconsin	Kansas City, MO 64999
Maryland, Pennsylvania (ZIP codes beginning with 150–168 and 172 only), Virginia, District of Columbia, any U.S. possession, or foreign country	Philadelphia, PA 19255

Estimated Income Tax Payments.—Generally, a trust or estate must pay estimated income tax if it expects to owe, after subtracting any withholding and credits, at least $500 in tax for 1989, and it expects the withholding to be less than:

(1) 90% of the tax shown on the 1989 tax return, or

(2) 100% of the tax shown on the 1988 tax return (assuming the return covered all 12 months).

Note: *Estates are only required to make estimated income tax payments for any tax year ending two or more years after the date of decedent's death.*

Exceptions.—Generally, the trust or estate will not have to pay estimated tax if its 1989 income tax return will show (1) a tax refund, or (2) a tax balance due of less than $500. For more information see Form 1041-ES.

Section 643(g) Election.—Fiduciaries that pay estimated tax may elect to have any portion of their estimated tax overpayment applied to any of the beneficiaries. Fiduciaries making a section 643(g) election must also file Form 1041-T to show the allocation of any overpayment of estimated tax payments among the trust's beneficiaries. Amounts applied to each beneficiary are treated as paid or credited to the beneficiary on the last day of the trust's tax year and should be reported on Schedule K-1 (Form 1041) and Form 1041-T. Form 1041-T must be attached to Form 1041. Be sure to copy the name, address, and EIN of the trust exactly as reported on Form 1041. See section 643(g) and instructions for line 24b.

Magnetic Tape Filing Requirements.— Under the provisions of Revenue Procedure 87-64, 1987-2 C.B. 828, fiduciaries that have a Treasury Tax and Loan (TT&L) Account for deposited Federal taxes and administer at least 200 taxable trusts are required to submit the data on estimated tax payments on magnetic tape. See Rev. Proc. 87-64 for details on this filing requirement.

At-Risk Loss Limitations.— Generally, the amount the estate or trust has "at risk" limits the loss you can deduct for any tax year. Use **Form 6198,** Computation of Deductible Loss From an Activity Described in Section 465(c), to figure the deductible loss for the year and file it with Form 1041. For more information, see Publication 559 and **Publication 925,** Passive Activity and At-Risk Rules.

Passive Activity Loss and Credit Limitations.— Section 469 and the regulations thereunder limit deductions from passive activities to the amount of income derived from all passive activities. Similarly, credits from passive activities are limited to the tax attributable to such activities. These limitations are first applied at the estate or trust level. Interests in activities acquired before 10/23/86 are referred to as pre-enactment interests. Interests in activities acquired after 10/22/86 are interests other than pre-enactment interests.

Losses and credits from pre-enactment activities are eligible for a phase-in of the limitations. For 1988, 40% of the current year passive activity loss from these activities is allowed to offset nonpassive income.

Generally, an activity is deemed to be a passive activity if it involves the conduct of any trade or business, and the taxpayer does not materially participate in the activity. Passive activities do not include working interests in oil and gas properties. See section 469(c).

In the case of a grantor trust, material participation is determined at the grantor level.

Rental activities are passive activities, whether or not the taxpayer materially participates.

Note: *Material participation standards for estates and trusts had not been established by regulations at the time these instructions went to print.*

In the case of taxable years of an estate ending less than 2 years after the date of death of the decedent, up to $25,000 of deductions and deduction equivalents of credits attributable to all rental real estate activities in which the decedent actively participated is allowed. Any unused losses and/or credits are deemed "suspended" passive activity losses for the year, and are carried forward indefinitely.

If the estate or trust distributes any interest in a passive activity, the basis of the property immediately before the distribution is increased by the passive activity losses allocable to the interest; and such losses are not allowable as a deduction. See section 469(j).

Note: *Losses from passive activities may be first subject to the at-risk rules. When the losses are deductible under the at-risk rules, the passive activity rules then apply.*

Portfolio income is not treated as income from a passive activity, and passive losses and credits generally may not be applied to offset it. Portfolio income generally includes interest, dividends, royalties, and income from annuities. Portfolio income of an estate or trust must be accounted for separately, and may not be offset by losses from passive activities. See **Form 8582,** Passive Activity Loss Limitations, to compute the amount of allowable passive activity loss. See **Form 8582-CR,** Passive Activity Credit Limitations, to compute the amount of credit allowed for the current year.

Special Rule for Blind Trust.—If you are reporting income from a qualified blind trust (under the Ethics in Government Act of 1978), do not identify the payer of any income to the trust but complete the rest of the return as provided in the instructions. Also write "Blind Trust" at the top of page 1.

Penalties and Interest

1. Interest. Interest will be charged on taxes not paid by their due date, even if an extension of time to file is granted.

Interest is also charged on any additions to tax imposed by sections 6651(a)(1), 6653, 6659, or 6661 from the due date of the return (including any extensions) to the date the addition to tax was paid.

2. Late Filing of Return. The law provides a penalty of 5% of the tax due for each month, or part of a month, that the return is late (maximum 25%) unless you can show reasonable cause for the delay. If you file a return late, attach a full explanation to your return. If your return is more than 60 days late, the minimum penalty is the lesser of $100 or 100% of the balance of tax due on your return.

3. Late Payment of Tax. Generally, the penalty for not paying tax when due is ½ of 1% of the unpaid amount for each month or part of a month it remains unpaid. The maximum penalty is 25% of the unpaid amount. The penalty applies to any unpaid tax shown on a return. Any penalty is in addition to interest charges on late payments.

Note: *If you include interest or either of these penalties with your payment, identify and enter these amounts in the bottom margin of Form 1041, page 1. Do not include the interest or penalty amount in balance of tax due on line 26.*

4. Penalty for Failure To Supply Schedule K-1. The fiduciary is required to provide Schedule K-1 (Form 1041) to each beneficiary who receives a distribution of property or an allocation of an item of the estate. A penalty of $50 (not to exceed $100,000 for any calendar year) will be imposed on the fiduciary for each failure to furnish Schedule K-1 to each beneficiary unless reasonable cause for each failure is established.

5. Underpaid Estimated Tax. If the fiduciary underpaid estimated tax, attach **Form 2210,** Underpayment of Estimated Tax by Individuals and Fiduciaries, to compute any penalties. Check the box on line 29, Form 1041, and enter the amount of any penalties in the space provided.

6. Other Penalties. There are also other penalties that can be imposed for negligence and substantial underpayment of tax. See **Publication 17,** Your Federal Income Tax, for details on these penalties.

Unresolved Tax Problems.—IRS has a Problem Resolution Program for taxpayers who have been unable to resolve their problems with IRS. If you have a tax problem you have been unable to resolve through normal channels, write to your local IRS District Director, or call your local IRS office and ask for Problem Resolution assistance.

The Problem Resolution Office will take responsibility for your problem and ensure that it receives proper attention. Although this office cannot change the tax law or technical decisions, it can frequently clear up misunderstandings that resulted from previous contacts.

Specific Instructions

Employer Identification Number (EIN).— Use **Form SS-4,** Application for Employer Identification Number, to apply for the EIN for the estate or trust. You may get this form from IRS or the Social Security Administration. A separate EIN is required for the estate and for each trust. See **Publication 583,** Information for Business Taxpayers, for more information.

Date Entity Created.—Enter the date the trust was created, or, if an estate, the date of the decedent's death.

Identification Area

Please copy the exact name of the estate or trust from the Form SS-4 that you used to apply for the number.

Fill in the information called for at the top of the form and check the appropriate entity box. See the definition section on page 1 for descriptions of the type of trusts and estates.

Special filing requirements apply to bankruptcy estates and certain trusts. These requirements are described below.

Decedent's Estate.—Check this box if you are filing for the estate of a domestic decedent.

Note: *When reporting interest or dividend income on Form 1041 for the first year of the decedent's estate and on the final income tax return, Forms 1099-DIV and 1099-INT issued in the name of the decedent may reflect earnings for the entire year. The fiduciary, when preparing the final income tax return of the decedent, should indicate on Schedule B, Form 1040 or Schedule 1, Form 1040A, that the balance of any interest or dividend income is reported on Form 1041. Also, the name and address of the fiduciary return, Form 1041, should be shown.*

Simple Trust.—Check this box if you are filing for a simple trust. A simple trust with:

(1) No tax liability;
(2) No amounts reportable on Schedule D (Form 1041), Capital Gains and Losses;
(3) No charitable contribution deduction;
(4) No rental income, loss or credits derived from such activity;
(5) No other passive activity income, losses or credits derived from such activities; and
(6) A trust instrument that requires all of the current income of the trust to be distributed to the beneficiary(ies) during the tax year.

may find it easier to file Form 1041S, instead of Form 1041.

Grantor Type Trust.—Check this box if you are filing for a trust that is treated as totally or partly owned by the grantor or another person.

Generally, transfers made in trust after March 1, 1986, are subject to section 673(a) which treats the grantor as the owner of any portion of a trust in which he or she has a reversionary interest in either the income or corpus therefrom, if, as of the inception of that portion of the trust, the value of that interest is more than 5% of the value of that portion.

Further, under section 672(e) any interest held by the grantor's spouse living with the grantor at the time of the creation of such interest is treated as being held by the grantor.

Report on Form 1041 the part of the income that is taxable to the trust. Do not report on Form 1041 the income that is taxable to the grantor or another person. Instead, attach a separate sheet to report the following:

- The income of the trust that is taxable to the grantor or another person under sections 671 through 678.
- The name, identifying number, and address of the person(s) to whom the income is taxable.
- Any deductions or credits applied to this income.

On page 1 at the top of Form 1041, write the name, identification number, and address of the grantor(s) or other person(s) in parentheses after the name of the trust.

The income taxable to the grantor or another person under sections 671 through 678 and the deductions and credits applied to the income must be reported on the income tax return that person files.

Simplified Filing Requirement.—The grantor/trustee for a trust described below that was created in a tax year beginning on or after January 1, 1981, should not file Form 1041 and therefore will not need an EIN for the trust. The grantor/trustee must furnish his or her social security number to payers of income and report all items of income, deduction, and credit from the trust on his or her Form 1040.

Method of Reporting.—This special rule applies to certain revocable trusts that are located in the United States and that have all assets located in the United States if:

- The same individual is both grantor and trustee (or co-trustee) of the trust; and
- The individual is treated as owner of all trust assets for the tax year under section 676 (power to revoke).

These rules also apply to certain other revocable trusts in which:

- A husband and wife are the sole grantors;
- One spouse is trustee or co-trustee with a third party or both spouses are trustees or co-trustees with a third party;
- One or both spouses are treated as owners of all trust assets for the tax year under section 676 (power to revoke); and
- The husband and wife file a joint income tax return for the tax year.

Grantor Trusts Created in Tax Years Beginning Before 1981.—The grantor/trustee for a trust described above who has previously filed Form 1041 and who wants to take advantage of the simplified reporting requirements in the future should file a Form 1041 for the current year and write on it "pursuant to section 1.671-4(b), this is the final return for this grantor trust."

A grantor/trustee who chooses this option must furnish his or her social security number to payers of income for the next year and report the trust income on his or her Form 1040 for the next tax year and for future years. The grantor/trustee must not file Form 1041 for future years.

Bankruptcy Estate.—Check this box if you are filing for the estate of an individual involved in bankruptcy proceedings. Remember to figure the tax on Form 1040 and to attach it to Form 1041, complete the identification area at the top of Form 1041, enter any tax due, and sign and date the Form 1041.

Pooled Income Fund.—Check this box if you are filing for a pooled income fund. You must attach a statement to support the following:

- The calculation of the yearly rate of return. (See Regulations section 1.642(c)-6(c) for the calculation rules.)
- The computation of the deduction for distributions to the beneficiaries.
- The computation of any charitable deduction.

You do not have to complete Schedule A (Form 1041) or Schedule B (Form 1041).

If the fund has accumulations of income, file **Form 1041-A**, U.S. Information Return-Trust Accumulation of Charitable Amounts, unless the fund is required to distribute all of its net income to beneficiaries currently.

You must also file **Form 5227**, Split-Interest Trust Information Return.

Initial Return.—Check this box if this is the initial return for the estate or trust. Also, be sure to enter the date the entity was created in the space provided.

Amended Return.—If you are filing an amended Form 1041, check the amended return box. Complete the entire return, correct the appropriate line(s) with the new information, and recompute your tax liability. On an attached sheet explain the reason for the amendment(s) and identify the line(s) and amount(s) being changed on the amended return.

If the amended return results in a change to income, or a change in distribution of any income or other information provided to a beneficiary, an amended Schedule K-1 (Form 1041) must also be filed with the amended Form 1041 and given to each beneficiary. Write "AMENDED" across the top of the corrected Schedule K-1.

Final Return.—Check this box if this is a final return because the estate or trust has terminated.

On the final return, neither an estate nor a trust is allowed an exemption. If there is an unused loss carryover or excess deductions on the final return, see the "*Unused loss carryover*" and "*Excess deductions on termination*" discussion in the Schedule K-1 instructions. Figure the deductions on an attached sheet.

Do not complete Schedule B (Form 1041).

Number of Schedules K-1 Attached.—Every estate or trust claiming an income distribution deduction on line 18 must enter the number of Schedules K-1 (Form 1041) that are attached to Form 1041.

Nonexempt Charitable and Split-Interest Trust.—Check the first box if the trust is a nonexempt charitable trust described in section 4947(a)(1). Check the second box if the trust is not treated as a private foundation as explained in Regulations sections 53.4947-1 and 53.4947-2. Check the third box if the trust is a nonexempt split-interest trust described in section 4947(a)(2).

If the trust is treated as a private foundation, see Regulations sections 53.4947-1 and 53.4947-2 for private foundation rules that apply to charitable and split-interest trusts. You must file **Form 990-PF**, Return of Private Foundation, if the charitable trust is treated as a private foundation. You may also have to file **Form 4720,** Return of Certain Excise Taxes on Charities and Other Persons Under Chapters 41 and 42 of the Internal Revenue Code. *Do not deduct on Form 1041 any private foundation taxes paid.*

If the nonexempt charitable trust is a private foundation that has zero taxable income under Subtitle A, it may file Form 990-PF to satisfy its Form 1041 filing requirements.

A nonexempt charitable trust not treated as a private foundation must file **Form 990**, Return of Organization Exempt From Income Tax, and **Schedule A (Form 990)**, Organization Exempt Under 501(c)(3), if its gross receipts are normally more than $25,000. If the trust has zero taxable income under Subtitle A, it may satisfy its Form 1041 filing requirement by filing Form 990.

Split-interest trusts must file Form 5227 and are also required to file Form 1041-A if they are not required to distribute all of their net income currently to beneficiaries. Any split-interest trust reporting unrelated business taxable income must file Form 1041 separately.

Nonexempt charitable trusts do not have to file either Form 5227 or Form 1041-A.

Line-by-Line Instructions

The instructions below are numbered to correspond to the line items on Form 1041.

Rounding off to whole-dollar amounts.—You may show the money items on the return and accompanying schedules as whole-dollar amounts. To do so, drop any amount less than 50 cents and increase any amount from 50 cents through 99 cents to the next higher dollar.

Income

Line 1. Dividends.—Enter the total of all taxable dividends.

Line 2. Interest income.—Enter the total of all taxable interest including any original issue discount, and income received as a regular interest holder of a Real Estate Mortgage Investment Conduit (REMIC). See Publication 550.

Line 3. Income or (losses) from partnerships, other estates or other trusts.—Enter the total income or losses from all partnerships, other estates, or trusts except the following:

(a) Dividends (enter on line 1).

(b) Interest (enter on line 2).

(c) Capital gain or (loss) (enter on Schedule D (Form 1041)).

(d) Ordinary gain or loss (enter on **Form 4797**, Sales of Business Property).

Write the name of the partnership, other estate, or trust and the EIN on line 3. If the amount entered on line 3 is from more than one source, then list the names and numbers and also identify the amount from each source on an attached sheet. Any losses and credits from passive activities may be limited. See the discussion under "Passive Activity Loss Limitations".

Line 4. Net rent and royalty income (or loss).—Enter the net rent and royalty income or loss. Attach **Schedule E (Form 1040)**, Supplemental Income Schedule, to show the fiduciary's share of income and expenses including depreciation and depletion.

For a trust, divide the deductions for amortization, depreciation, and depletion between the fiduciary and the beneficiaries as specified in the trust instrument. If the trust instrument does not so specify, divide the deductions on the same basis as the trust instrument provides for dividing the income between the fiduciary and the beneficiaries.

For an estate, divide the deductions for amortization, depreciation, and depletion between the estate and the beneficiaries in the same way the estate income is allocated to each. See Regulations sections 1.642(e)-1, 1.642(f)-1, 1.167(f)-1, 1.167(h)-1, and 1.611-1(c) for more information about the division of these deductions. If the estate or trust has a loss from an activity, see "At-Risk Loss Limitations" and "Passive Activity Loss Limitations" discussed earlier.

Attach **Form 4562**, Depreciation and Amortization, to explain any depreciation, and amortization deduction. Attach a separate computation for any depletion deduction.

Note: *An estate or trust cannot make an election under section 179 to expense certain depreciable business assets.*

Line 5. Net business and farm income (or loss).—Enter the net profit or loss from business and farming during the tax year. Attach **Schedule C (Form 1040)**, Profit or Loss From Business, to report the business income or loss. Attach **Schedule F (Form 1040)**, Farm Income and Expenses, to report the farm income or loss. Complete all information on Schedules C and F (Form 1040) that applies to the estate or trust.

See the instructions for line 4 and page 6 for more information on dividing the deductions for amortization, depreciation, and depletion between the fiduciary and the beneficiaries.

Line 6. Capital gain (or loss).—Enter from Schedule D (Form 1041) the gain or loss from the sale or exchange of capital assets.

Line 7. Ordinary gain (or loss).—Enter from Form 4797 the gain or loss from the sale or exchange of property other than capital assets and also from involuntary conversions (other than casualty or theft). For more information, see the instructions for Form 4797.

Line 8. Other income.—Enter the total taxable income not reportable elsewhere on page 1. State the nature of the income. Attach a separate sheet if necessary.

Examples of income to be reported on line 8 are:

- Wages and salaries received by the decedent's estate that are income in respect of a decedent. See Publication 559 for more information.
- The estate's or trust's share of aggregate income or loss that is ordinary income if the estate or trust is a shareholder of an S corporation. Also state the name and EIN of the corporation. Report capital gain income, dividend income, etc., on other appropriate lines.
- The estate's or trust's share of taxable income (or loss) if the estate or trust is a residual holder of a REMIC. You should receive **Schedule Q (Form 1066)**, Quarterly Notice to Residual Interest Holders of REMIC Taxable Income or Net Loss Allocation, and instructions from the REMIC for each quarter.

See Part IV, Schedule E, Form 1040, Instructions for reporting requirements, and attach Schedule E (Form 1040).

- Any part of a total distribution shown on **Form 1099-R**, Statement for Recipients of Total Distributions From Profit-Sharing, Retirement Plans, Individual Retirement Arrangements, Insurance Contracts, etc., that is treated as ordinary income.

For more information, see the separate instructions for **Form 4972**, Tax on Lump-Sum Distributions.

- In certain situations, you must report as income any credit or refund you received in 1988 for an overpayment of windfall profit tax for 1987 due to overwithholding or the net income limitation. In general, the credit or refund you received is income to the extent you deducted windfall profit tax withheld in 1987 on Form 1041 and received a tax benefit for the deduction on your 1987 Form 1041.

Note: *The windfall profit tax does not apply to crude oil removed after August 22, 1988.*

For more information, see Miscellaneous Taxable Income, in **Publication 525**, Taxable and Nontaxable Income.

Deductions

Allocation of deductions for tax-exempt income.—All deductions entered on lines 10 through 15 must include only the fiduciary's share of deductions related to taxable income. If the estate or trust has tax-exempt income, the amount included on lines 10 through 15 must be reduced by the allocable portion attributed to tax-exempt income. The allocable amounts to be included on lines 10 through 15 are determined as follows:

- *Percentage of tax-exempt income to gross income.*—Divide the total tax-exempt income received by the total of all items of gross income (including tax-exempt income) included in distributable net income.
- *Excludable amount of each specific deduction.*—Multiply the percentage of tax-exempt income by each specific deduction.
- *Amount deductible on lines 10 through 15.*— Subtract the excludable amount of each specific deduction from the specific deduction and enter the balance on the appropriate line. For more information, see Publications 550 and 559.

Deductions that may be allowable for estate tax purposes.—Administration expenses and losses deductible on Form 706 may be deducted on Form 1041 instead if the fiduciary files a statement waiving the right to deduct the expenses and losses on Form 706. The statement must be filed before the expiration of the statutory period of limitations applicable to the tax year for which the deduction is claimed. *You cannot deduct on Form 1041 a decedent's medical and dental expenses that are paid by the fiduciary.* See Publication 559 for more information.

Generally, an accrual basis taxpayer can deduct accrued expenses in the tax year that all events have occurred that determine the liability and the amount of the liability can be figured with reasonable accuracy. However, all the events that establish liability are treated as occurring only when economic performance takes place. There are exceptions for recurring items. See section 461(h).

Line 10. Interest.—Enter any deductible interest paid or accrued that is not deductible elsewhere on Form 1041. Do not include interest on a debt that was incurred or continued in order to buy or carry obligations that yield tax-exempt interest. If unpaid interest is due related persons, see **Publication 545**, Interest Expense.

For tax years beginning in 1988, only 40% of the personal interest deduction is allowable. Personal interest does not include:

(1) interest paid or accrued on indebtedness incurred in connection with the conduct of a trade or business;

(2) any investment interest;

(3) any interest which is taken into account under section 469 in computing income or loss from a passive activity;

(4) any "qualified residence interest"; or

(5) any interest payable under section 6601 on any unpaid portion of the estate tax attributable to the value of a reversionary or remainder interest in property, or an interest in a closely held business for the period during which an extension of time for payment of such tax is in effect.

See section 163(h)(3) for a definition of "qualified residence interest" and limitations on indebtedness.

Generally, "investment interest" is interest that is paid or accrued on indebtedness that is properly allocable to property held for investment. Investment interest does not include any "qualified residence interest," or interest that is taken into account under section 469 in computing income or loss from a passive activity.

Generally, net investment income is the excess of investment income over investment expenses. Investment expenses are those expenses (other than interest) allowable after application of the 2% floor on miscellaneous itemized deductions.

The amount of investment interest deduction is limited. Use **Form 4952**, Investment Interest Expense Deduction, to compute the allowable investment interest deduction.

Any disallowed investment interest expense is allowed as a carryforward to the next tax year. See section 163(d) and Publication 550, for more information.

If the allowable part of the excess investment interest expense is deductible, write "Form 4952 attached" on line 10. Then add the deductible interest figured on Form 4952 to the other types of deductible interest and enter the total on line 10.

Note: *See section 1277 for rules on the deferral of the interest deduction that is allocable to accrued market discount on bonds acquired after July 18, 1984, and section 1282 for rules on the deferral of the interest deduction that is allocable to the accrued discount on certain short-term obligations acquired after July 18, 1984.*

Line 11. Taxes.—Enter any deductible taxes paid or accrued during the tax year that are not deductible elsewhere on Form 1041. State and local sales taxes are not deductible. Instead, they are to be treated as part of the cost of the property upon acquisition, or as a reduction in the amount realized upon disposition.

Deductible taxes include:

- State and local income or real property tax.
- The windfall profit tax imposed by section 4986. Generally, the first purchaser of the crude oil will notify you on **Form 6248**, Annual Information Return of Windfall Profit Tax, of the amount of windfall profit tax withheld during the calendar year.

Note: *The windfall profit tax does not apply to crude oil removed after August 22, 1988.*

- The Generation-Skipping Transfer (GST) tax imposed on income distributions.

Line 12. Fiduciary fees.—Enter the deductible fees paid to the fiduciary for administering the estate or trust during the tax year.

Line 13. Charitable deduction.—Enter the total from Schedule A (Form 1041) line 6.

Line 14. Attorney, accountant, and return preparer fees.—Enter the deductible attorney, accountant, and return preparer fees paid for the estate or trust during the tax year.

Line 15. Other deductions.—Attach a separate sheet listing all authorized deductions, that are not deductible elsewhere on Form 1041. Enter the total on line 15.

Miscellaneous itemized deductions are deductible only to the extent that the aggregate amount of such deductions exceeds two percent of adjusted gross income (AGI). For estates and trusts, the AGI is computed by subtracting the following from total income (line 9):

(1) the administration costs of the estate or trust;

(2) the income distribution deduction under section 651 or 661; and

(3) the amount of the exemption under section 642(b) from line 20.

Allowable administration costs are those costs incurred with the administration of the estate or trust which would not have been incurred if the property were not held in such estate or trust. These administration costs are not subject to the two percent floor.

In determining the income distribution deduction, the distributable net income (DNI) must be computed taking into account the allowable miscellaneous itemized deduction (AMID) (after application of the two percent floor). To compute the AMID you must first determine the AGI. To compute the AGI you must determine the DNI of the estate or trust because the AMID is allowable as a deduction in computing the DNI. Therefore it is necessary to perform an interrelated computation for the two unknown factors, the first factor being the AMID, and the second, the DNI.

One method which can be used is to solve a simultaneous equation with the unknown factor being the AMID. Subtract from the gross miscellaneous itemized deductions the two percent floor expressed as a function of DNI.

The term "miscellaneous itemized deductions" does not include:

- The deduction relating to interest under section 163.
- The deduction relating to taxes under section 164.
- The deduction relating to the amortization of bond premium under section 171.
- The deduction relating to estate taxes in the case of income in respect of a decedent under section 691(c).

For more exceptions, see section 67(b).

Nontrade or nonbusiness and nonfarm expenses.—Include the following expenses:

- For the production or collection of taxable income.
- For the management, conservation, or maintenance of property held for the production of taxable income.
- In connection with the determination, collection, or refund of any tax.

Include on Schedule D (Form 1041) as losses on capital assets any losses on worthless bonds and similar obligations and nonbusiness bad debts.

See **Publication 529**, Miscellaneous Deductions, for more information on expenses of producing income.

Bond premium(s).—The rules for amortizing bond premiums are different for taxable bonds and tax-exempt bonds.

For taxable bonds:

- You may elect to amortize the premium.
- Only the fiduciary may make the election for the estate or trust.
- The basis must be reduced if you elect to amortize.

For tax-exempt bonds:

- You must amortize the premium.
- You may not deduct the amortization of premium from income.
- The basis must be reduced by the amortization of the premium.

For more information, see Publication 550.

If you claim a bond premium deduction for the estate or trust, figure the deduction on a separate sheet and attach it to this return.

Casualty and theft losses.—Use **Form 4684**, Casualties and Thefts, to report casualty and theft losses.

If you have any sales, exchanges, or involuntary conversions (other than casualty or theft) of property used in a trade or business, or any involuntary conversions (other than casualty or theft) of certain capital assets, use Form 4797.

Net operating loss deduction.—An estate or trust is allowed the net operating loss deduction (NOLD) under section 172. In computing the net operating loss, exclude that portion of the income and deductions attributable to the grantor under sections 671 through 678. Also, the charitable contribution deduction under section 642(c) and the income distribution deductions under sections 651 and 661 are not allowed.

The estate or trust is allowed the carryback and carryforward period for the NOLD.

For more information, see **Publication 536,** Net Operating Losses, and **Form 1045,** Application for Tentative Refund. If you claim a net operating loss deduction for the estate or trust, figure the deduction on a separate sheet and attach it to this return.

Fiduciary's share of amortization, depreciation, and depletion not claimed elsewhere.—If you cannot deduct the amortization, depreciation, and depletion as rent or royalty expenses on Schedule E (Form 1040), or as business or farm expenses on Schedules C and F (Form 1040), itemize the fiduciary's share of the deductions on an attached sheet. Then include them on line 15. Itemize each beneficiary's share of the deductions on the appropriate line of Schedule K-1 (Form 1041). See the instructions for Schedule K-1 for more information, including the rules for dividing the deductions between the fiduciary and the beneficiaries.

Restricted deductions.—For the special rules on real property construction period interest and taxes for trade or business and activities conducted for profit, see **Publication 535,** Business Expenses.

For information on unpaid expenses due related persons, see Publication 550.

For the rules on the tax year for which a deduction is claimed, including the limit for expenses paid in advance, see Publication 538.

For the limit on deductions for certain farming syndicates, see Publication 535.

Line 17. Adjusted total income or (loss).—If the amount on line 16 is more than the amount on line 9, then you have excess deductions. Excess deductions can only be distributed to a beneficiary on the final return of the estate or trust. For more information, see the instructions for Schedule K-1, line 9.

Line 18. Income distribution deduction.—If this trust was identified as a trust other than a "Pooled Income Fund" on page 1, Form 1041, complete Schedule B on page 2. However, if line 17 is equal to or less than zero and no distributions were actually made or available on demand to the beneficiaries in the tax year, then do not complete Schedule B.

Cemetery perpetual care fund.—On line 18, deduct the amount, not more than $5 per gravesite, paid for maintenance of cemetery property. Write the number of gravesites to the right of the entry space for line 18. Also write "Section 642(i) trust" in parentheses after the trust's name at the top of Form 1041. You do not have to file Schedules B (Form 1041) and K-1 (Form 1041).

Line 19. Estate tax deduction (including generation-skipping transfer tax).—See Publication 559 and section 691(c) and related regulations for information on how to figure the estate tax deduction. The section 691(c) regulations also have examples of how to figure the deduction. Figure the deduction on a separate sheet. Attach the sheet to your return. Also, a deduction is allowed for the GST tax imposed as a result of a taxable termination, or a direct skip occuring as a result of the death of the transferor. See Publication 448 and section 691(c)(3). Enter the fiduciary's share of these deductions on line 19.

Line 20. Exemption.—The amount of the exemption deduction depends on either the language in the governing trust instrument or whether a decedent's estate has been created. The applicable exemption amount included on line 20 must be excluded in determining the NOL and any excess deduction amounts.

Note: *No exemption is allowed on the final return of an estate or trust.*

Estate.—The estate of a decedent is entitled to a $600 deduction.

Trust.—Any trust that is required by its governing trust instrument to distribute currently all its income is entitled to a $300 deduction. The $300 deduction is allowed regardless of whether the trust is a simple or complex trust.

Any trust that is not required by its governing instrument to distribute currently all its income is entitled to a $100 deduction. Generally, complex trusts will be entitled to the $100 deduction.

See Publication 559 and Regulations section 1.642(b)-1 for exceptions.

Line 24a. 1988 Estimated tax payments and 1987 overpayment credited to 1988.— Enter the amount of any estimated tax payment you made on Form 1041-ES for 1988 plus the amount of any overpayment from the 1987 return that was applied to the 1988 estimated tax.

If the trust is the beneficiary of another trust, and received a payment of estimated tax that was credited to the trust (as reflected on the Schedule K-1 issued to the trust), then report this amount separately with the notation "section 643(g)" in the space next to line 24a.

Note: *Do not include on Form 1041 estimated tax paid by an individual before death. Instead, include the payments on the decedent's final Form 1040.*

Line 24b. Treated as paid by trust beneficiaries.—The trustee may elect under section 643(g) to have any portion of an overpayment of its estimated tax treated as a payment of estimated tax made by a beneficiary or beneficiaries. If the election is made, Form 1041 and Form 1041-T must be filed on or before the 65th day after the close of the trust's tax year. Form 1041-T shows the amounts to be allocated to each beneficiary. This amount is to be reflected on the beneficiary's Schedule K-1, line 11a.

Failure to file Form 1041-T by March 6, 1989, will result in an invalid election. An invalid election will require the filing of amended Schedules K-1 for each beneficiary who was allocated an overpayment of estimated tax.

Note: *Recently enacted legislation allows a fiduciary of an estate to make a section 643(g) election if it overpaid its estimated income tax in the final tax year of the estate. IRS will issue guidance as to how and when the estate's fiduciary makes this election.*

Line 24d. Tax paid with extension of time to file.—If you filed either Form 2758 (for estates only), Form 8736, or Form 8800 to request an extension of time to file, enter the amount that you paid and check the appropriate box(es).

Line 24e. Federal income tax withheld.—If you claim a credit for Federal income tax erroneously withheld (and not repaid) by an employer on wages and salaries of a decedent received by the decedent's estate, attach **Form W-2,** Wage and Tax Statement.

Include on line 24e any credit for backup withholding (under section 3406) for income retained by the estate or trust. Report on Schedule K-1 (Form 1041), line 11, any credit for backup withholding for income distributed to the beneficiary.

Line 24f. Credit from regulated investment companies.—Attach copy B of **Form 2439,** Notice to Shareholder of Undistributed Long-Term Capital Gains.

Line 24g. Credit for Federal tax on fuels.—Attach **Form 4136,** Computation of Credit for Federal Tax on Fuels.

Line 24h. Overpaid windfall profit tax.—Attach **Form 6249,** Computation of Overpaid Windfall Profit Tax.

Line 26. Tax due.— The tax of both a trust and an estate must be paid in full when the return is filed.

Make your check or money order payable to "Internal Revenue Service." Write the EIN and "1988 Form 1041" on the payment.

Line 28a. Credit to your 1989 estimated tax.—Enter the amount from line 27 that is to be applied to your 1989 estimated tax.

Line 29. Underpayment of estimated tax.—If line 26 is more than $500 and more than 10% of the tax shown on your return, or you underpaid your 1988 estimated tax liability for any payment period, you may owe a penalty. See **Form 2210,** Underpayment of Estimated Tax by Individuals and Fiduciaries, to determine whether you owe a penalty, and to figure the amount of the penalty.

Note: *The penalty may be waived under certain conditions. See* ***Publication 505,*** *Tax Witholding and Estimated Tax, for details.*

Instructions for Schedule A (Form 1041) Charitable Deductions

General Instructions

The percentage limitations applicable to individuals do not apply.

The charitable contribution must be authorized by the governing instrument. Distributions of corpus generally do not qualify for the charitable deduction. If you elect to treat a charitable contribution as paid in the preceding tax year, you must file the statement described in Regulations section 1.642(c)-1 with the return (or amended return) for the tax year in which the contribution is treated as paid. The statement must be filed by the due date including extensions for the return for the succeeding tax year.

Who Must File

Use Schedule A (Form 1041) to determine the charitable contribution deduction for an estate or trust.

1. *Simple Trusts*—Simple trusts may not claim the charitable deduction.

2. *Complex Trusts*—Complex trusts may deduct amounts actually paid, but amounts permanently set aside may be deducted only if authorized for certain events that happened on or before October 9, 1969.

3. *Estates*—Estates may deduct any part of gross income that under the terms of the will is paid or permanently set aside for a charitable purpose during the tax year.

What Must Be Filed

1. *Complex Trusts and Estates.*—Complete Schedule A (Form 1041) to compute the charitable deduction for an estate or a complex trust.

2. *Complex Trusts.*—All complex trusts claiming a charitable deduction must also file **Form 1041-A,** U.S. Information Return— Trust Accumulation of Charitable Amounts.

3. *Other.*—A pooled income fund, nonexempt private foundation, or trust with unrelated business income should attach a separate sheet to Form 1041 instead of using Schedule A (Form 1041) to compute the charitable deduction.

For more information about the charitable deduction, see Publication 559, section 642(c), and related regulations.

Line-by-Line Instructions

Line 1.—Enter on line 1 the full amount paid or permanently set aside from the current year's gross income that qualifies for the charitable deduction. *Do not include capital gain allocable to corpus.* Do include capital gain treated as income under the governing instrument and local law.

Line 2.—Multiply the amount on line 1 by the total of all tax-exempt interest included in income of the current year. Then divide the result by the total of all income of the current year. (Do not subtract any losses, such as from the sale or exchange of property.) Enter the result on line 2.

Line 4.—Enter the total of all net short-term capital gain and net long-term capital gain of the current year that is:

- Allocable to corpus;
- Paid or permanently set aside for charitable purposes; and
- Not included on line 1.

Line 5.—Enter the total of deductible amounts paid or permanently set aside for charitable purposes from gross income of a prior tax year (and for which no charitable deduction was claimed in the prior tax year). Attach a statement to show the details.

Instructions for Schedule B (Form 1041) Income Distribution Deduction

Note: *Both "simple" and "complex" trusts are now required to complete Schedule B. Pooled income funds are not required to complete Schedule B for regular tax purposes. See Schedule G, line 6 instructions for alternative minimum tax rules.*

General Instructions

The term "distributable net income" (DNI) limits the deductions allowable to estates and trusts for amounts paid, credited, or required to be distributed to beneficiaries and is used to determine how much of an amount paid, credited, or required to be distributed to a beneficiary will be includible in his or her gross income.

Separate share rule.—If a single trust has more than one beneficiary, and if different beneficiaries have substantially separate and independent shares, their shares are treated as separate trusts for the sole purpose of determining the DNI allocable to the respective beneficiaries. If the separate share rule applies, figure the DNI allocable to each beneficiary on a separate sheet and attach the sheet to this return. For more information, see section 663(c) and related regulations.

Line-by-Line Instructions

Line 1. Adjusted total income.—If the amount on line 17 of page 1 is less than zero and the negative number is attributable wholly or in part to the revised capital loss limitation rules under section 1211(b), then enter as a negative number on Schedule B, line 1, the lesser of the loss from line 17 on page 1; or the loss from line 6 on page 1.

Line 2. Adjusted tax-exempt interest.—Figure the adjusted tax-exempt interest as follows. From the amount of tax-exempt interest received, subtract the total of (1) and (2) below:

(1) Tax-exempt interest on Schedule A (Form 1041), line 2.

(2) Any expenses allowable under section 212 allocable to tax-exempt interest, and any interest expense allocable to tax-exempt interest.

Figure section 212 expenses allocable to tax-exempt interest as follows. Divide the total tax-exempt interest received by the total of all the items of gross income (including tax-exempt interest) included in DNI. Multiply the result by the total section 212 expenses that are not directly attributable to any items of income.

Figure the interest expense allocable to tax-exempt interest according to the guidelines in Rev. Proc. 72-18, 1972-1 C.B. 740.

See Publication 559 and Regulations sections 1.643(a)-5, 1.265-1, and 1.265-2 for more information about the adjustments to deductions for expenses and interest relating to tax-exempt interest.

Line 10.—If you are filing for an estate, skip this line. If you are filing for a simple or a complex trust, enter the income for the tax year determined under the terms of the governing instrument and applicable local law. Do not include extraordinary dividends or taxable stock dividends determined under the governing instrument and applicable local law to be allocable to corpus.

Line 11.—Enter income of the estate or trust that is required to be distributed currently to all beneficiaries, whether it is distributed or not. The governing instrument and local law determine the items of income and whether an amount must be distributed currently. If the governing instrument requires that stated amounts be paid to a beneficiary and that these amounts may come from either income or corpus, include on line 11 any part of these amounts paid from income of the current year.

Line 12.—Enter other amounts actually paid, credited, or required to be distributed to beneficiaries in the tax year, whether from income or corpus.

Unless a section 643(e)(3) election is made, the value of all noncash property actually paid, credited, or required to be distributed to any beneficiaries after June 1, 1984, is the smaller of:

(1) The estate's or trust's adjusted basis in the property immediately before distribution, plus any gain or minus any loss recognized to the estate or trust on the distribution (basis of beneficiary), or

(2) The fair market value of such property. This rule does not apply to any noncash property distributed in satisfaction of a specific sum of money. If a section 643(e)(3) election is made by the fiduciary, then the amount entered on line 12 will be the fair market value of the property.

Lines 11 and 12.—Do not include on lines 11 or 12:

- Any amounts deducted on an earlier year's return that were required to be distributed in the earlier year.
- Any amount that is properly paid or credited as a gift or bequest of a specific amount of money or specific property. (To qualify as a gift or bequest, the amount must be paid in three or fewer installments.) An amount that can be paid or credited only from income is not considered a gift or bequest.
- Any amount paid or permanently set aside for charitable purposes or otherwise qualifying for the charitable deduction.

Line 13. Total distributions.—Add lines 11 and 12 and enter the total on line 13. If line 13 is more than line 10 and you are filing for a complex trust, complete **Schedule J (Form 1041)** and file it with Form 1041 unless the complex trust has no previously accumulated income.

Line 14.—Figure the amount to enter on line 14 as follows:

From tax-exempt income included on line 13, subtract the total of:

(1) the charitable contribution deduction allocable to such tax-exempt income, and

(2) expenses allocable to tax-exempt income.

To compute the expenses allocable to tax-exempt income, divide tax-exempt income by total income. Multiply the result by expenses not directly allocable to any item of income.

Instructions for Schedule G (Form 1041) Tax Computation

Line 1a. Tax rate schedule.—For tax years beginning in 1988, figure the tax using the tax rate schedule below. Enter the tax on line 1a.

Note: *If the taxable income of the estate or trust is more than $13,000, but not more than $26,000, there is a phase-out of the benefit of the 15% tax rate. Use the worksheet below the Tax Rate Schedule to compute the tax.*

Tax Rate Schedule

If the amount on line 22 is:

Over—	But not over—	Enter on line 1a:	Of the amount over—
$0	$5,000	15%	$0
5,000	26,000	750 + 28%	5,000
26,000	....	28%	-0-

1. Figure the tax using the tax rate schedule above ________

2. Taxable income from line 22, Form 1041 (not more than $26,000) . ________

3. Applicable amount . . 13,000

4. Subtract line 3 from line 2 . . . . . . ________

5. Multiply line 4 by .05 . ________

6. Tax. (Add lines 1 and 5.) Enter here and on line 1a, Schedule G, Form 1041. . . . . ________

Line 1b. Other tax.—Include on line 1b any additional tax from the following and attach each form to the return. If there is more than one, list on a separate sheet:

- **Form 4970,** Tax on Accumulation Distribution of Trusts.
- **Form 4972**, Tax on Lump-Sum Distributions.
- Section 644 tax on trusts.

If the trust sells or exchanges property at a gain within 2 years after receiving it from a transferor, a section 644 tax may be due. The tax may be due if both (i) and (ii) below apply:

(i) There is an includible gain recognized by the trust; and

(ii) At the time the trust received the property, the property had a fair market value higher than its adjusted basis.

The trustee is authorized by section 6103(e)(1)(A)(ii) to inspect the transferor's income tax return to the extent necessary to figure the section 644 tax if the transferor refuses to make a disclosure to the trustee.

Includible gain is the smaller of (i) or (ii) below:

(i) The gain recognized by the trust on the sale or exchange of the property; or

(ii) The amount by which the fair market value of the property at the time of the initial transfer to the trust exceeds the adjusted basis of the property immediately after the transfer.

Figure the tax on the gain by subtracting the transferor's actual tax for the tax year of the sale or exchange from the transferor's tax for the year of the sale or exchange refigured to include the recognized gain minus any deductions allocable to the gain.

See section 644 for additional information, including character rules, special rules, exceptions, installment sale rules, and the interest on the tax if the transferor and the trust have different tax years.

If the section 644 tax is the only tax due, enter the amount of the tax on line 1b and write "section 644 tax" to the right of the amount column on line 1c. If there is more than one tax, include the amount of the section 644 tax in the total tax entered on line 1b. Attach the section 644 tax computation to the return. Do not include the section 644 gain in the trust's taxable income.

Interest on tax deferred under the installment method for certain nondealer real property installment obligations.—If an obligation arising from the disposition of real property to which section 453A applies is outstanding at the close of the year, the estate or trust must include the interest due under section 453A(c) in the amount to be entered on line 1b of Schedule G, Form 1041, with the notation "Section 453A(c) interest." Attach a schedule showing the computation.

Line 2a. Fiduciary's share of foreign tax credit.—Attach **Form 1116,** Computation of Foreign Tax Credit—Individual, Fiduciary, or Nonresident Alien Individual, if you elect to claim credit for income or profits taxes paid or accrued to a foreign country or a U.S. possession. You may claim credit for that part of the foreign taxes not allocable to the beneficiaries (including charitable beneficiaries). Enter the credit on line 2a. See Publication 559 for information about allocation to beneficiaries. See **Publication 514,** Foreign Tax Credit for Individuals, for more information about the foreign tax credit.

Line 2b. Credit for producing fuel from a nonconventional source.—If you claim any section 29 credit for producing fuel from a nonconventional source, figure the credit on a separate sheet. Write "section 29 computation" on the separate sheet and attach it to the return.

Line 2c. General business tax credits.—Check the appropriate box for the type of credit you are claiming and enter the amount of the credit on line 2c. You should check the box for **Form 3800,** General Business Credit, if you are claiming more than one of the credits listed below or if you carry over or carry back the general business credit:

- Fiduciary's share of investment credit. Figure the investment credit allocable to the fiduciary on an attached **Form 3468,** Computation of Investment Credit. See **Publication 572**, General Business Credit, for additional information on Form 3468.
- Fiduciary's share of jobs credit. Figure the credit allocable to the fiduciary on an attached **Form 5884,** Jobs Credit. See Publication 572.
- Fiduciary's share of credit for alcohol used as fuel. Figure the credit allocable to the fiduciary on an attached **Form 6478,** Credit for Alcohol Used as Fuel. Also report the alcohol fuel tax credit on line 8, Other Income.
- Fiduciary's share of credit for increasing research activities on an attached **Form 6765,** Credit for Increasing Research Activities.
- Fiduciary's share of credit for low-income housing on attached **Form 8586,** Low-Income Housing Credit.

Line 2d. Credit for prior year minimum tax.—If the estate or trust paid minimum tax in 1987, it may be eligible for a minimum tax credit in 1988. See **Form 8801,** Credit for Prior Year Minimum Tax.

Line 5. Recapture taxes.—Figure the increase in tax allocable to the fiduciary on an attached **Form 4255,** Recapture of Investment Credit. Enter the tax on line 5. Also, attach **Form 8611,** Recapture of Low-Income Housing Credit for any recapture allocable to the fiduciary. See Publication 572 for more information.

Line 6. Alternative minimum tax.—Estates and trusts compute their alternative minimum tax by determining distributable net income on a minimum tax basis.

Use **Form 8656,** Alternative Minimum Tax–Fiduciaries, to compute: (1) the estate or trust's alternative minimum taxable income; (2) the distributable net alternative minimum taxable income (DNAMTI); and (3) the estate or trust's alternative minimum tax. Be sure to attach Form 8656 to Form 1041, regardless of whether the estate or trust is liable for the alternative minimum tax. In computing DNAMTI of the estate or trust, no deduction is allowed for any:

(1) Miscellaneous itemized deduction (except for administration expenses of the estate or trust); or

(2) Taxes described in section 164(a)(1), (2), or (3) (State and local income and property taxes).

Additional adjustments may apply.

To determine the DNAMTI of the estate or trust, both items of adjustment and items of tax preference under sections 56, 57, and 58, must be taken into account. Some of these items include:

- Accelerated depreciation
- Mining exploration and development costs
- Installment sales of certain property
- Depletion
- Intangible drilling costs
- Tax-exempt interest from specified private activity bonds
- Tax shelter farm losses
- Passive activity losses.

See **Publication 909,** Alternative Minimum Tax for Individuals, for more information.

Other Information

Question 2.—If you receive tax-exempt income, figure the allocation of expenses between tax-exempt and taxable income on a separate sheet and attach it to the return. Enter only the deductible amounts on the return. Do NOT figure the allocation on the return itself. For more information, see Publications 550 and 559.

Report the amount of tax-exempt interest income received or accrued in the space provided below Question 2.

Also, include any exempt-interest dividends received as a shareholder in a mutual fund or other regulated investment company.

Question 3.— See the instructions on page 3 and **Publication 925,** Passive Activity and At-Risk Rules, for a discussion of the rules of passive activity losses and credits. If you checked "Yes," complete **Form 8582,** Passive Activity Loss Limitations, to determine allowable passive losses, and the amount of carryforward of any "suspended" passive activity losses for the year.

See the instructions for Schedule K-1 for a discussion of passive activity amounts allocated to beneficiaries.

Question 4.—All salaries, wages, and other compensation for personal services must be included in the return of the person who earned the income, even though the income was irrevocably assigned to a trust by a contract assignment or similar arrangement.

The grantor or person creating the trust is considered the owner if he or she keeps "beneficial enjoyment" of or substantial control over the trust property. The trust's income, deductions, and credits are allocable to the owner.

If you checked "Yes" for Question 4, see the Specific Instructions for "Grantor Type Trust."

Question 5.—Check the "Yes" box and enter the name of the foreign country if either (1) or (2) below applies.

(1) At any time during the year the estate or trust had an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account). **Exception:** Check "No" if either of the following applies to the estate or trust:

- The combined value of the accounts was $10,000 or less during the whole year; OR
- The accounts were with a U.S. military banking facility operated by a U.S. financial institution.

(2) The estate or trust owns more than 50% of the stock in any corporation that owns one or more foreign bank accounts.

Get **Form TD F 90-22.1**, Report of Foreign Bank and Financial Accounts, to see if the estate or trust is considered to have an interest in or signature or other authority over a bank account, securities account, or other financial account in a foreign country.

If you checked "Yes" for Question 5, file Form TD F 90-22.1 by June 30, 1989, with the Department of the Treasury at the address shown on the form. Form TD F 90-22.1 is not a tax return, so do not file it with Form 1041.

You may order Form TD F 90-22.1 from an IRS Forms Distribution Center.

Question 6.—An estate or trust that transferred property to a foreign corporation, foreign estate or trust, or foreign partnership must file **Form 926,** Return by a Transferor of Property to a Foreign Corporation, Foreign Estate or Trust, or Foreign Partnership, even if the transfer is nontaxable. Form 926 is also used to pay any excise tax due under section 1491.

Form 3520, Creation of or Transfers to Certain Foreign Trusts, is used by the grantor of an inter vivos trust or the fiduciary of a testamentary trust, or the transferor, to meet the reporting requirements under section 6048 with respect to transfers of money or property to a foreign trust, or the creation of a foreign trust.

Form 3520-A, Annual Return of Foreign Trust With U.S. Beneficiaries, is required to be filed under section 6048(c) by any U.S. person who directly or indirectly transfers property to a foreign trust (with certain exceptions) that has one or more U.S. beneficiaries.

Question 8.—Check the box for a complex trust making the section 663(b) election to treat any amount properly paid or credited to a beneficiary within the first 65 days following the close of the tax year as being properly paid or credited on the last day of the preceding tax year.

Question 9.—Section 643(e)(3) election.—To make the section 643(e)(3) election, check the box and see the instructions for Schedule D (Form 1041).

Question 10.—Check the box if the decedent's estate has been open for more than two years and attach an explanation of the delay in closing the estate.

Signature

Form 1041 must be signed by the fiduciary or by an authorized representative.

Fiduciaries who submitted estimated tax payments are to enter their Employer Identification Number (EIN) in the space provided.

If you fill in your own return, the Paid Preparer's space should remain blank. If someone prepares your return and does not charge you, that person should not sign your return.

Generally, anyone who is paid to prepare your tax return must sign your return and fill in the other blanks in the Paid Preparer's Use Only area of your return.

The person required to sign your return must complete the required preparer information and:

- Sign it, by hand, in the space provided for the preparer's signature. (Signature stamps and labels are not acceptable.)
- Give you a copy of your return in addition to the copy to be filed with IRS.

Tax return preparers should know their responsibilities. These are described in **Publication 1045,** Information for Tax Practitioners.

Instructions for Schedule D (Form 1041) Capital Gains and Losses

General Instructions

File Schedule D (Form 1041) with Form 1041 to report gains and losses from the sale or exchange of capital assets by an estate or trust.

To report sales or exchanges of property other than capital assets, including the sale or exchange of property used in a trade or business and involuntary conversions (other than casualties and thefts), see Form 4797 and related instructions.

If property is involuntarily converted because of a casualty or theft, use **Form 4684**, Casualties and Thefts.

Capital Asset.—Each item of property held by the estate or trust (whether or not connected with its trade or business) is a capital asset except:

- Inventoriable assets or property held primarily for sale to customers;
- Depreciable or real property used in a trade or business;
- Certain copyrights, literary, musical, or artistic compositions, letters or memorandums or similar property;
- Accounts or notes receivable acquired in the ordinary course of a trade or business for services rendered or from the sale of inventoriable assets or property held primarily for sale to customers; and
- Certain Federal publications not purchased at the public sale price.

You may find additional helpful information in the following publications that are available from the Internal Revenue Service:

Publication 559, Tax Information for Survivors, Executors, and Administrators.

Publication 544, Sales and Other Dispositions of Assets.

Publication 551, Basis of Assets.

Publication 537, Installment Sales.

Publication 549, Condemnations and Business Casualties and Thefts.

Section 643(e)(3) election.—For noncash property distributions a fiduciary may elect to have the estate or trust recognize gain or loss in the same manner as if the distributed property had been sold to the beneficiary at its fair market value. This election applies to all distributions made by the estate or trust during the tax year.

Note that section 267 will not allow a deduction for any loss from the sale of property on which a trust makes a section 643 (e)(3) election. In addition, when a trust distributes depreciable property, section1239 would apply to deny capital gain treatment on the gain to the trust if the trust makes a section 643(e)(3) election.

Section 644 tax on trusts.—If a trust sells or exchanges property at a gain within 2 years after receiving it from a transferor, a special tax may be due. *Do not include section 644 gains on Schedule D.* The tax is reported separately on Form 1041. For more information see the instructions for Schedule G, line 1b.

Transfer of appreciated property to a political organization.—If an estate or trust transfers property to a political organization as defined in section 527(e)(1), and if at the time of the transfer the fair market value of the property is more than the adjusted basis, treat the transfer as a sale of property on the date of transfer. Report the fair market value of the property at the time of transfer as the sale price. Ordinary income or capital gain provisions apply as if a sale had actually occurred. For more information, see section 84 and Publication 559.

Exchange of "like kind" property.—In most cases, no gain or loss is recognized when property held for productive use in a trade or business or for investment is exchanged solely for property of a "like kind" to be held either for productive use in a trade or business or for investment. See section 1031. However, report these transactions on Schedule D or Form 4797, whichever is applicable. If you use Schedule D, identify in column (a) the property disposed of. Enter the date of acquisition in column (b) and the date of exchange in column (c). Write "like kind exchange" in column (d) and enter the adjusted basis in column (e). Enter zero in column (f). See Publication 544 and the Form 4797 instructions for more information.

Losses in transactions between certain persons.—Do not deduct a loss from the sale or exchange of property directly or indirectly between any of the following:

- A grantor and a fiduciary of a trust,
- A fiduciary and a fiduciary or beneficiary of another trust created by the same grantor,
- A fiduciary and a beneficiary of the same trust,
- A trust fiduciary and a corporation of which more than 50% in value of the outstanding stock is owned directly or indirectly by or for the trust or by or for the grantor of the trust.

See Publication 544 for more information.

Items for Special Treatment.—The following items may require special treatment:

- Wash sales of stock or securities (section 1091).
- Gain or loss on options to buy or sell (section 1234).
- Certain real estate subdivided for sale which may be considered a capital asset (section 1237).
- Gain on disposition of stock in an Interest Charge Domestic International Sales Corporation (section 995(c)).
- Gain on the sale or exchange of stock in certain foreign corporations (section 1248).
- Gain on the sale of qualified reinvested dividends from a qualified public utility. See Publication 550 for details.
- Loss on sale, exchange, or worthlessness of small business stock (section 1244 stock).
- Distributions received from an employee pension, profit-sharing, or stock bonus plan. See Form 4972.

Disposition of market discount bonds.—See section 1276 for rules on the disposition of any market discount bonds that were issued after July 18, 1984.

Section 1256 Contracts and Straddles.—See the instructions for **Form 6781**, Gains and Losses From Section 1256 Contracts and Straddles, if you are reporting gains or losses from section 1256 contracts or straddles that you held during the tax year. Include in basis interest and carrying charges allocable to personal property that is part of a straddle. *You cannot deduct these expenses.* For exceptions, see Publication 544. See sections 1092 and 263(g) for more information.

Line-by-Line Instructions

Line 1. Short-term capital gains and losses.—When you list the capital gains and losses, separate them according to how long the estate or trust held or owned the property. The holding period for determining short-term capital gains and losses is one year or less. For property acquired before January 1, 1988, the holding period is six months or less. The holding period for determining long-term capital gains and losses is more than one year. For property acquired before January 1, 1988, the holding period for determining long-term capital gains is more than six months.

On line 1, itemize the short-term capital gains and losses. Property acquired by a decedent's estate from the decedent and sold or otherwise disposed of within one year is considered as held for more than one year (six months for property acquired before January 1, 1988). Itemize the long-term capital gains and losses for the decedent's estate on line 7.

To figure the holding period.—When you figure the length of the period the estate or trust held property, begin counting on the day after the estate or trust acquired the property and include the day the estate or trust disposed of it. Use the trade dates for the date of acquisition and sale of stocks and bonds on an exchange or over-the-counter market.

Column (d). Gross sales price.—Enter the selling price of the property sold.

Column (e). Cost or other basis, as adjusted, plus expense of sale.—Enter the cost or adjusted basis of the property sold or exchanged, plus any expense of sale, such as broker's fees, commissions, etc. The basis of property acquired from or passing from a decedent is generally the fair market value at the date of death. For more information, see Publication 551, Publication 559, and section 1014.

For an election under section 2032A (special valuation for farm or business real property), use the rules of section 2032A to determine basis. See section 1040 for amount of gain to be recognized by the estate.

Carryover basis determined under repealed section 1023 applies to property acquired from a decedent who died after December 31, 1976, and before November 7, 1978, only if the personal representative elected it on a **Form 5970-A,** Election of Carryover Basis, that was filed on time.

The basis of property acquired by gifts made before January 1, 1977, generally is the basis of the property in the hands of the donor plus any gift tax paid. For gifts made after December 31, 1976, only part of the gift tax may be added to the basis of the property in the hands of the donor. See Publication 448 and section 1015 for more information.

For any debt instrument having original issue discount issued after July 1, 1982, the basis is increased by the amount of original issue discount that has been included in gross income. See Publication 550.

Attach an explanation if the basis used is other than the actual cash cost of the property.

Lines 2 and 8. Installment sales.—If you sold estate or trust property at a gain this year and are to receive any payment in a later tax year, use the installment method and file **Form 6252,** Installment Sale Income, unless you elect not to.

Also use Form 6252 if you received a payment in 1988 from a sale made in an earlier year on the installment basis.

If you elect not to use the installment method and are reporting a note or other obligation at less than full face amount, state that fact in the margin and give the percentage of valuation.

If you file Form 6252, enter on Schedule D (Form 1041), line 2, the short-term capital gain from installment sales from Form 6252. Enter on Schedule D (Form 1041), line 8, the long-term capital gain from installment sales from Form 6252.

See Publications 537 and 559 for more information.

Line 5. Short-term capital loss carryover.—Enter on line 5 the amount from line 33 of your retained copy of your 1987 Schedule D (Form 1041).

Line 7. Long-term capital gains and losses.—Itemize the long-term capital gains and losses. See the line 1 instructions for the holding period rules for determining short- and long-term capital gains and losses. See the column (e) instructions for determining basis.

Attach an explanation if the basis used is other than the actual cash cost of the property.

Redemption of stock to pay death taxes.—If stock is redeemed under the provisions of section 303, list and identify it on line 7 and give the name of the decedent and the IRS office where the estate tax or generation-skipping transfer tax return was filed.

If you are reporting capital gain from a lump-sum distribution, see the instructions for Form 4972 for information about the death benefit exclusion and the Federal estate tax.

Line 10. Capital gain distributions.—Enter any amounts shown on **Form 2439,** Notice to Shareholder of Undistributed Long-Term Capital Gains, that represent the estate's or trust's share of the undistributed capital gains of a regulated investment company. Include on Form 1041, line 24f, the tax paid by the company as shown on Form 2439. To the basis of the stock, add the excess of the amount included in income over the credit if the amount is not distributed.

Line 13. Long-term capital loss carryover.—Enter on line 13 the amount from line 38 of the retained copy of your 1987 Schedule D (Form 1041).

Line 15, column (a). Net short-term capital gain or loss allocated to beneficiaries.—Enter the amount of net short-term capital gain or loss allocable to the beneficiary or beneficiaries. Include only those short-term capital losses that are taken into account in determining the amount of gain from the sale or exchange of capital assets that is paid, credited, or required to be distributed to any beneficiary during the tax year. See Publication 559 and Regulations section 1.643(a)-3 for more information about allocation of capital gains and losses.

Line 15, column (b). Net short-term capital gain or loss allocated to the fiduciary.—Enter the amount of the net short-term capital gain or loss allocable to the fiduciary. Include any capital gain paid or permanently set aside for the charitable purpose specified in section 642(c).

Except for the final year of an estate or trust, if the losses from the sale or exchange of capital assets are more than the gains, all of the losses are allocated to the fiduciary and none are allocated to the beneficiaries. For more information, see Publication 559.

Line 15, column (c). Total.—Enter the total of the amounts entered in columns (a) and (b). The amount in column (c) should be the same as the amount on line 6.

Line 16. Net long-term capital gain or loss.—Treat the net long-term capital gain or loss on line 16 the same as the net short-term capital gain or loss on line 15.

Part IV. Computation of Capital Loss Limitation.—If the sum of all the capital losses is more than the sum of all the capital gains (all the gains and losses are taken into account at 100%), then these capital losses are allowed as a deduction only to the extent of the smaller of the net loss or $3,000.

Part V. Computation of Capital Loss Carryovers From 1988 to 1989.—Recent legislation changed the computation of the capital loss carryover effective for tax years beginning after December 31, 1986. If you had a capital loss carryforward from 1987, first recompute that carryforward using Part V of the 1988 Schedule D (Form 1041).

Complete Part V to figure the capital loss carryover if this is not the final year. A capital loss carryover may be carried forward indefinitely. Capital losses keep their character as either short-term or long-term when carried over to the following year. To the extent the capital loss limitation is deducted from ordinary income, consider the net short-term capital loss as deducted first. For more information, see Publication 544 and Publication 550.

Instructions for Schedule J (Form 1041) Trust Allocation of an Accumulation Distribution (Section 665)

General Instructions

Purpose of Form.—File Schedule J (Form 1041) with Form 1041 to report an accumulation distribution by a domestic complex trust.

Line-by-Line Instructions

Part I.—Accumulation Distribution in 1988

Line 1. Distribution under section 661(a)(2).—Enter the amount from Schedule B (Form 1041), line 12, for 1988. This is the amount properly paid, credited, or required to be distributed other than the amount of income for the current tax year required to be distributed currently.

Line 2. Distributable net income.—Enter the amount from Schedule B (Form 1041), line 9, for 1988. This is the amount of distributable net income (DNI) for the current tax year determined under section 643(a).

Line 3. Distribution under section 661(a)(1).—Enter the amount from Schedule B (Form 1041), line 11, for 1988. This is the amount of income for the current tax year required to be distributed currently.

Line 5. Accumulation distribution.—Subtract line 4 from line 1. If Schedule B (Form 1041), line 13, is more than Schedule B (Form 1041), line 10, complete the rest of Schedule J and file it with Form 1041, unless the trust has no previously accumulated income.

Generally, amounts accumulated before a beneficiary becomes age 21 may be excluded by the beneficiary. See sections 665 and 667(c) for exceptions relating to multiple trusts. The trustee reports to IRS the total amount of the accumulation distribution before any reduction for income accumulated before the beneficiary becomes age 21. Then the beneficiary claims the exclusion when filing **Form 4970**, Tax on Accumulation Distribution of Trusts, if the multiple trust rules do not apply. This is because one trustee may be unaware that the beneficiary may be a beneficiary of other trusts with other trustees.

There are examples of accumulation distributions in Regulations section 1.665(b)-1A(b) that include (1) payments from one trust to another trust, and (2) amounts distributed for a dependent's support.

Part II.—Ordinary Income Accumulation Distribution

Line 6. Distributable net income for earlier years.—Enter the applicable amounts as follows:

Throwback year(s)	Amount from line
1969–1977	Schedule C (Form 1041), line 5
1978–1979	Form 1041, line 61
1980	Form 1041, line 60
1981–1982	Form 1041, line 58
1983–1987	Schedule B (Form 1041), line 9

For information about throwback years, see the instructions for line 13. For purposes of line 6 of Schedule J, in figuring the DNI of the trust for a throwback year, subtract any estate tax deduction for income in respect of a decedent if the income is includible in figuring the DNI of the trust for that year.

Line 7. Distributions made during earlier years.—Enter the applicable amounts as follows:

Throwback year(s)	Amount from line
1969–1977	Schedule C (Form 1041), line 8
1978	Form 1041, line 64
1979	Form 1041, line 65
1980	Form 1041, line 64
1981–1982	Form 1041, line 62
1983–1987	Schedule B (Form 1041), line 13

Line 11. Prior accumulation distribution thrown back to any throwback year.—Enter the amount of prior accumulation distributions thrown back to the throwback years. *Do not enter distributions excluded under section 663(a)(1) for gifts, bequests, etc.*

Line 13. Throwback years.—Allocate the amount on line 5 that is an accumulation distribution to the earliest applicable year first, but do not allocate more than the amount on line 12 for any throwback year. An accumulation distribution is thrown back first to the earliest preceding tax year beginning after December 31, 1968, in which there is undistributed net income. Then it is thrown back beginning with the next earliest year to any remaining preceding tax years of the trust. The portion of the accumulation distribution allocated to the earliest preceding tax year is the amount of the undistributed net income for that year. The portion of the accumulation distribution allocated to any remaining preceding tax year is the amount by which the accumulation distribution is larger than the total of the undistributed net income for all earlier preceding tax years. A tax year of a trust during which the trust was a simple trust for the entire year is not a "preceding tax year" unless (1) during that year the trust received "outside income" or (2) the trustee did not distribute all of the income of the trust that was required to be distributed currently for that year. In this case, undistributed net income for that year must not be more than the greater of the "outside income" or income not distributed during that year. The term "outside income" means amounts that are included in DNI of the trust for that year but that are not "income" of the trust as is defined in Regulations section 1.643(b)-1. Some examples of "outside income" are (1) income taxable to the trust under section 691, (2) unrealized accounts receivable that were assigned to the trust, and (3) distributions from another trust that include DNI or undistributed net income of the other trust. Enter the applicable year at the top of each column for each throwback year.

Line 16. Tax-exempt interest included on line 13.—For each throwback year, divide line 15 by line 6 and multiply the result by one of the following:

Throwback year(s)	Amount from line
1969–1977	Schedule C (Form 1041), line 2(a)
1978–1979	Form 1041, line 58(a)
1980	Form 1041, line 57(a)
1981–1982	Form 1041, line 55(a)
1983–1987	Schedule B (Form 1041), line 2

Part III.—Taxes Imposed on Undistributed Net Income

Note: *The alternative tax on capital gains was repealed for tax years beginning after December 31, 1978. Neither the 1981 nor 1987 maximum rate on net capital gains is an alternative tax for this purpose.*

For the regular tax computation, if there is a capital gain, complete lines 18 through 25 for each throwback year. If the trustee elected the alternative tax on capital gains, complete lines 26 through 31 instead of lines 18 through 25 for each applicable year. (If there is no capital gain for any year (or there is a capital loss for every year), enter on line 9 the amount of the tax for each year identified in the instruction for line 18; do not complete Part III.) If the trust received an accumulation distribution from another trust, see the regulations under sections 665 through 668.

A. Regular Tax Computation

Line 18. Tax.—Enter the applicable amounts as follows:

Throwback year(s)	Amount from line
1969–1976	Form 1041, page 1, line 24
1977	Form 1041, page 1, line 26
1978–1979	Form 1041, line 27
1980–1984	Form 1041, line 26c
1985–1986	Form 1041, line 25c
1987	Form 1041, line 22c

Line 19. Net short-term gain allocated to trust.—For each throwback year, enter on line 19 the smaller of the capital gain from the two lines indicated; if there is a capital loss or a zero on either or both of the two lines indicated, enter zero on line 19.

Throwback year(s)	Amount from line
1969–1970	Schedule D, line 10, column 2, or Schedule D, line 12, column 2.
1971–1978	Schedule D, line 14, column 2, or Schedule D, line 16, column 2.
1979	Schedule D, line 18, column (b), or Schedule D, line 20, column (b).
1980–1981	Schedule D, line 14, column (b), or Schedule D, line 16, column (b).
1982	Schedule D, line 16, column (b), or Schedule D, line 18, column (b).
1983–1987	Schedule D, line 15, column (b), or Schedule D, line 17, column (b)

Line 20. Net long-term gain taxable to the trust.—Enter the applicable amounts as follows:

Throwback year(s)	Amount from line
1969–1970	50% of Schedule D, line 13(e)
1971–1977	50% of Schedule D, line 17(e)
1978	Schedule D, line 17(e) or line 31, whichever is applicable, less Form 1041, line 23.
1979	Schedule D, line 25 or line 27, whichever is applicable, less Form 1041, line 23.
1980–1981	Schedule D, line 21, less Schedule D, line 22.
1982	Schedule D, line 23, less Schedule D, line 24.
1983–1986	Schedule D, line 22, less Schedule D, line 23.
1987	Schedule D, the smaller of any gain on line 16 or 17, column (b)

Line 22. Total taxable income.—Enter the applicable amounts as follows:

Throwback year(s)	Amount from line
1969–1976	Form 1041, page 1, line 23
1977	Form 1041, page 1, line 25
1978–1979	Form 1041, line 26
1980–1984	Form 1041, line 25
1985–1986	Form 1041, line 24
1987	Form 1041, line 21

B. Alternative Tax on Capital Gain

Line 26. Tax on income other than long-term capital gain.—Enter the applicable amounts as follows:

Throwback year (s)	Amount from line
1969	Schedule D, line 20
1970	Schedule D, line 19
1971	Schedule D, line 50
1972–1975	Schedule D, line 48
1976–1978	Schedule D, line 27

Line 27. Net short-term gain taxable to the trust.—If there is a loss on any of the following lines, enter zero on line 27 for the applicable throwback year. Otherwise, enter the applicable amounts as follows:

Throwback year(s)	Amount from line
1969–1970	Schedule D, line 10, column 2
1971–1978	Schedule D, line 14, column 2

Line 28. Total taxable income less section 1202 deduction for capital gain allocated to the trust.—Enter the applicable amounts as follows:

Throwback year(s)	Amount from line
1969	Schedule D, line 19
1970	Schedule D, line 18
1971	Schedule D, line 38
1972–1975	Schedule D, line 39
1976–1978	Schedule D, line 21

Part IV.—Allocation to Beneficiary

Complete Part IV for each beneficiary. If the accumulation distribution is allocated to more than one beneficiary, attach an additional copy of Schedule J with Part IV completed for each additional beneficiary. You may give a copy to the beneficiary. If more than five throwback years are involved, attach additional schedules.

If the beneficiary is a nonresident alien individual or a foreign corporation, see section 667(e) about retaining the character of the amounts distributed to determine the amount of the United States withholding tax.

The beneficiary uses Form 4970 to compute the tax on the distribution. The beneficiary also uses Form 4970 for the section 667(b)(6) tax adjustment if an accumulation distribution is subject to estate or generation-skipping transfer tax. This is because the trustee may not be the estate or generation-skipping transfer tax return filer.

Instructions for Schedule K-1 (Form 1041) Beneficiary's Share of Income, Deductions, Credits, Etc.

General Instructions

Purpose of Form.—File Schedule K-1 (Form 1041) with Form 1041 to report the beneficiary's income from the estate or trust.

Who Must File.—The fiduciary (or one of the joint fiduciaries) must file Schedule K-1. A copy of each beneficiary's Schedule K-1 is attached to the Form 1041 filed with the IRS and each beneficiary is to be given a copy of his or her respective Schedule K-1. One copy of each Schedule K-1 must be retained for the fiduciary's records.

Beneficiary's identifying number.—As a payer of income, you are required under section 6109 to request and provide a proper identifying number for each recipient of income. Enter this number on all Schedules K-1 when you file your return. Individuals and business recipients are responsible for giving you their taxpayer identification numbers upon request. You may use **Form W-9**, Request for Taxpayer Identification Number and Certification, to request the beneficiary's identifying number.

Penalty.—Under section 6676, the payer is charged a $50 penalty for each failure to provide a required taxpayer identification number, unless reasonable cause is established for not providing it. If reasonable cause exists, please explain in a signed affidavit and attach to this return.

Tax shelter's identification number.—If the estate or trust is a tax shelter, is involved in a tax shelter, or is considered to be the organizer of a tax shelter, there are reporting requirements under section 6111 for both the fiduciaries and the beneficiaries.

See **Form 8264**, Application for Registration of a Tax Shelter, and **Form 8271**, Investor Reporting of Tax Shelter Registration Number, and their related instructions for information regarding the fiduciary's reporting requirements.

Substitute forms.—You do not need prior IRS approval for a substitute Schedule K-1 (Form 1041) that follows the specifications in Publication 1167 or is an exact copy of an IRS Schedule K-1. You must have prior approval for any other substitute Schedules K-1. You may apply for it by writing to: Internal Revenue Service; 1111 Constitution Avenue, NW; Washington, D.C., 20224, Attention: TR:R.

Beneficiary's income.—If no special computations are required, use the following instructions to compute the beneficiary's income from the estate or trust. In other cases, see Publication 559 and sections 652, 662, and 663, and related regulations. For example, special computations are required for capital gains and losses or a charitable deduction. In addition, the terms of the governing instrument or local law may require different computations.

Income.—The beneficiary must include in gross income the smaller of: (1) the amounts paid, credited, or required to be distributed; or (2) the proportionate share of distributable net income, reduced in either case by the share of distributable tax-exempt income minus the allocable expense not allowable as a deduction on Form 1041.

Character of Income.—The beneficiary's income is considered to have the same proportion of each class of items entering into the computation of DNI that the total of each class has to the DNI (for example, half dividends and half interest if the entity's income is half dividends and half interest).

Allocation of deductions.—Generally, items of deduction that enter into the computation of DNI are to be allocated among the items of income to the extent such allocation is not inconsistent with the rules set out in section 469 and the regulations thereunder, relating to passive activity loss limitations, in the following order.

First, all deductions directly attributable to one class of income are deducted from that income. For example, rental expenses, to the extent allowable, are deducted from rental income.

Second, deductions which are not directly attributable to one class of income, such as fiduciary fees, may be allocated to any class of income, as long as a reasonable portion is allocated to any tax-exempt income.

Finally, any excess deductions which are directly attributable to a class of income may be allocated to another class of income. In no case can excess deductions from a passive activity be allocated to income from a non-passive activity, or to portfolio income earned by the estate or trust. Excess deductions attributable to tax-exempt income cannot offset any other class of income.

In no case can deductions be allocated to an item of income that is not included in the computation of DNI, or attributable to corpus.

Except for the final year and for depreciation or depletion allocations in excess of income (see Rev. Rul. 74-530, 1974-2 C.B. 188), you may not show any negative amounts for any class of income because the beneficiary generally may not claim losses or deductions from the estate or trust.

Allocation of credits.—In general, the estate or trust or the beneficiaries may claim applicable tax credits according to how the income is divided. For more information, see the appropriate Code sections for the tax credits.

Also, see **Form 8582-CR,** Passive Activity Credit Limitations, for rules on credits from passive activities.

Gifts and bequests.—Do not include in the beneficiary's income any gifts or bequests of a specific sum of money or of specific property under the terms of the governing instrument that are paid or credited in three installments or less.

Amounts that can be paid or credited only from income of the estate or trust do not qualify as a gift or bequest of a specific sum of money.

Past years.—Do not include in the beneficiary's income amounts deducted on Form 1041 for an earlier year that were credited or required to be distributed in that earlier year.

Beneficiary's tax year.—The beneficiary's income from the estate or trust must be included in the beneficiary's tax year during which the tax year of the estate or trust ends. See Publication 559 for more information including the effect of the death of a beneficiary during the tax year of the estate or trust.

Line-by-Line Instructions

Line 1. Interest.—Enter the beneficiary's share of the taxable interest income.

Line 2. Dividends.—Enter the beneficiary's share of dividend income.

Line 3a. Net short-term capital gain or loss.—Enter the beneficiary's share of the net short-term capital gain. Do not enter a loss for any year before the final year of the estate or trust. If for the final year there is a capital loss carryover, enter the beneficiary's share of short-term capital loss carryover as a loss in parentheses. However, if the beneficiary is a corporation, enter the beneficiary's share of all carryover capital losses as a loss in parentheses. See Publication 559 and section 642(h) and related regulations for more information.

Line 3b. Net long-term capital gain or loss.—Enter the beneficiary's share of the net long-term capital gain. Do not enter a loss for any year before the final year of the estate or trust. If for the final year there is a capital loss carryover, enter the beneficiary's share of the long-term capital loss carryover as a loss in parentheses. (If the beneficiary is a corporation, see instruction 3a.) See Publication 559 and section 642(h) and related regulations for more information.

Gains, or losses, from the complete, or partial, disposition of a rental, rental real estate, or trade or business activity that is a passive activity, must be shown as an attachment to Schedule K-1.

Lines 4a through 4d.—Caution: *The limitations on passive activity losses and credits under section 469 apply to estates and trusts. Estates and trusts that distribute income to beneficiaries are allowed to allocate depreciation, depletion, and amortization deductions to the beneficiaries. These deductions are referred to as "directly allocable deductions."*

At the time these instructions went to print, the rules for treating a beneficiary's income and directly allocable deductions from an estate or trust and other rules for applying the passive loss and credit limitations to beneficiaries had not been finalized but will be provided in forthcoming regulations.

Any directly allocable deduction, such as depreciation, is treated as if such item were incurred in the same activity as if such deduction were incurred by the trust or estate. However, the character of such deduction may be determined as if the beneficiary incurred the deduction directly. These deductions may also be eligible for the phase-in rules of section 469(l).

If there is more than one activity, one or more of which is a passive activity, income and deductions are to be shown separately for each activity on an attached schedule.

Line 4a. Other taxable income.—To assist the beneficiary in computing any applicable passive activity loss limitations, attach a separate schedule showing the beneficiary's share of income derived from: (a) rental; (b) rental real estate; and (c) business activities. Also, enter the beneficiary's share of annuities, royalties, or any other income that is not reported elsewhere.

Line 4b. Depreciation (including cost recovery).—Enter the beneficiary's share of the depreciation deductions attributable to each activity reported on lines 4a(1)–(3). See the instructions for line 4 on page 5 for a discussion of the allocation of the depreciation deduction between the beneficiaries and the estate or trust.

Note: *An estate or trust cannot make an election under section 179 to expense certain depreciable business assets.*

Line 4c. Depletion.— Enter the beneficiary's share of depletion deduction under section 511 attributable to each activity reported on lines 4a(1)–(3). See the instructions for line 4 on page 5 for a discussion of the allocation of the depletion deduction between the beneficiaries and the estate or trust.

Line 4d. Amortization deductions.—Itemize the beneficiary's share of the amortization deductions attributable to each activity reported on lines 4a(1)–(3). Divide the amortization deductions between the fiduciary and the beneficiaries in the same way that the depreciation and depletion deductions are divided.

Line 5. Distributable net alternative minimum taxable income.— Enter the beneficiary's share of distributable net alternative minimum taxable income (i.e., the income distribution deduction computed on a minimum tax basis) from Form 8656.

Line 8. Estate tax deduction (including generation-skipping transfer taxes).—Enter the beneficiary's deductions. Figure the deductions on a separate sheet and attach the sheet to this return. See Publication 448 and section 691(c) and related regulations for information on how to figure these deductions.

Line 9. Excess deductions on termination.—If this is the final return and there are excess deductions on termination or a net operating loss carryover, then enter the beneficiary's share of the excess deductions on line 9.

(a) *Excess Deductions.* Excess deductions on termination occur only during the last taxable year of the estate or trust when the total deductions (other than the deductions allowed under section 642(b) (relating to the exemption amount) or section 642(c) (relating to the charitable contributions)) are greater than the gross income during that tax year. Figure the deductions on a separate sheet and attach to the form.

Only the beneficiary of an estate or trust that succeeds to its property is allowed to deduct that entity's excess deductions on termination. A beneficiary who does not have enough income in that year to absorb the entire deduction may not carry the balance over to any succeeding year. An individual beneficiary must be able to itemize deductions in order to claim the excess deductions in determining taxable income.

(b) *Net Operating Loss (NOL) Carryover.* Generally, a deduction based upon an NOL carryover is not available to a beneficiary as an excess deduction and should be entered on line 11. However, if the last tax year of the estate or trust is also the last year in which an NOL carryover may be taken (see section 172(b)), then the NOL carryover is considered an excess deduction on the termination of the entity to the extent it is not absorbed by the estate or trust during its final tax year. For more information, see Publication 559, section 642(h), and the related regulations.

Line 10. Foreign taxes.—List on a separate sheet the beneficiary's share of the applicable foreign taxes paid or accrued and the various foreign source figures needed for the beneficiary's foreign tax credit. See Publication 559, Publication 514, section 642(a), and related regulations for special rules about foreign taxes.

Line 11. Other.—Itemize on line 11 or on a separate sheet the beneficiary's tax information for which there is no other line on Schedule K-1. This includes the allocable share, if any, of:

- overpayment of estimated tax to be credited to the beneficiary (section 643(g)),
- tax-exempt interest realized by the trust (including exempt-interest dividends received as a shareholder in a mutual fund or other regulated investment company),
- gross farming and fishing income,
- credit for backup withholding (section 3406),
- investment income (section 163(d)),
- qualified rehabilitation expenditure,
- low-income housing credit,
- the jobs credit,
- the alcohol fuel credit,
- the increased research credit,
- the information a beneficiary will need to refigure an earlier year investment credit, and
- the information a beneficiary will need to compute any recapture taxes.

Unused loss carryover.—Upon termination of an estate or trust, a beneficiary succeeding to its property is allowed to deduct any amount of unused net operating loss (NOL) carryover or capital loss carryover. Enter the unused carryover amount and write "NOL CARRYOVER" (see line 3b instructions) to the left of the figure.

Caution: *Forthcoming regulations will explain the treatment of suspended passive activity losses upon the termination of an estate or trust.*

SCHEDULE D
(Form 1041)
Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

► **File with Form 1041. See the separate Form 1041 instructions.**

OMB No. 1545-0092
1988

Name of estate or trust

Employer identification number

Do not report section 644 gains on Schedule D (See Form 1041 instructions for line 1b, Schedule G.)

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less (6 months or less if acquired before 1/1/88)

(a) Description of property (Example, 100 shares 7% preferred of "Z" Co.)	**(b)** Date acquired (mo., day, yr.)	**(c)** Date sold (mo., day, yr.)	**(d)** Gross sales price	**(e)** Cost or other basis, as adjusted, plus expense of sale (see instructions)	**(f)** Gain (or loss) (col. (d) less (e))
1					

2 Short-term capital gain from installment sales from Form 6252	2	
3 Net short-term gain (or loss) from partnerships, S corporations, and other fiduciaries	3	
4 Net gain (or loss), (combine lines 1 through 3)	4	
5 Short-term capital loss carryover (see instructions)	5	( )
6 Net short-term gain (or loss), (combine lines 4 and 5). Enter here and on line 15 below ►	6	

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year (more than 6 months if acquired before 1/1/88)

7					

8 Long-term capital gain from installment sales from Form 6252	8	
9 Net long-term gain (or loss) from partnerships, S corporations, and other fiduciaries	9	
10 Capital gain distributions	10	
11 Enter gain, if applicable, from Form 4797	11	
12 Net gain (or loss), (combine lines 7 through 11)	12	
13 Long-term capital loss carryover (see instructions)	13	( )
14 Net long-term gain (or loss), (combine lines 12 and 13). Enter here and on line 16 below ►	14	

Part III Summary of Parts I and II

		(a) Beneficiaries	**(b)** Fiduciary	**(c)** Total
15 Net short-term gain (or loss) from line 6, above	15			
16 Net long-term gain (or loss) from line 14, above	16			
17 Total net gain (or loss), (combine lines 15 and 16) ►	17			

If line 17, column (c), is a net gain, enter the gain on Form 1041, line 6, and DO NOT complete Parts IV and V. If line 17, column (c), is a net (loss), complete Part IV.

For Paperwork Reduction Act Notice, see page 1 of the Instructions for Form 1041.

Schedule D (Form 1041) 1988

Part IV Computation of Capital Loss Limitation

18 Enter here and enter as a (loss) on Form 1041, line 6, the smaller of:
(i) The net loss on line 17, column (c); **or**
(ii) $3,000 . . . . **18** ( )

Part V Computation of Capital Loss Carryovers From 1988 to 1989

Section A.—Short-Term Capital Loss Carryover

(Complete this part only if there is a loss on line 6 and line 17, column (c).)

19 Enter loss shown on line 6 . . . . **19** ( )

20 Enter gain shown on line 14. If that line is blank or shows a loss, enter zero **20**

21 Reduce any loss on line 19 to the extent of any gain on line 20 . . . . **21** ( )

22 Enter taxable income or (loss) from Form 1041, line 22 . . . . **22**

23a Enter amount from line 18 as a positive amount **23a**

b Enter amount from Form 1041, line 20 . . . . **23b**

c Add lines 23a and 23b **23c**

24 Adjusted taxable income (combine lines 22 and 23c, but not less than zero) **24**

25 Enter the smaller of: (a) line 18, (b) line 21, or (c) line 24 . . . . **25**

26 Subtract line 25 from line 21. If zero or less, enter zero. This is your short-term capital loss carryover from 1988 to 1989 . . . . **26**

Section B.—Long-Term Capital Loss Carryover

(Complete this part only if there is a loss on line 14 and line 17, column (c).)

27 Enter loss from line 14 . . . . **27** ( )

28 Enter gain shown on line 6. If that line is blank or shows a loss, enter zero **28**

29 Reduce any loss on line 27 to the extent of any gain on line 28 . . . . **29** ( )

NOTE: *If line 26 shows a carryover, and line 25 was limited to the "adjusted taxable income" from line 24, skip lines 30 through 33c, and enter -0- on line 34.*

30 Enter taxable income or (loss) from Form 1041, line 22 . . . . **30**

31a Enter amount from line 18 as a positive amount **31a**

b Enter amount from Form 1041, line 20 . . . . **31b**

c Add lines 31a and 31b **31c**

32 Adjusted taxable income (combine lines 30 and 31c, but not less than zero) **32**

33a Enter amounts from line 18 as a positive amount **33a**

b Enter amount from line 25 (if blank, enter zero) **33b**

c Subtract line 33b from 33a **33c**

34 Enter the smallest of: (a) line 29; (b) line 32; or (c) line 33c **34**

35 Subtract line 34 from line 29. If zero or less, enter zero. This is your long-term capital loss carryover from 1988 to 1989 . . . . **35**

SCHEDULE J
(Form 1041)

Department of the Treasury
Internal Revenue Service

Information Return
Trust Allocation of an Accumulation Distribution (I.R.C. Section 665)

▶ **File with Form 1041.**

OMB No. 1545-0092

1988

Name of trust

Employer identification number

Part I Accumulation Distribution in 1988

For definitions and special rules, see the regulations under sections 665-668 of the Internal Revenue Code. See the Form 4970 instructions for certain income minors may exclude and special rules for multiple trusts.

1 Enter amount from Schedule B (Form 1041), line 12, for 1988 1

2 Enter amount from Schedule B (Form 1041), line 9, for 1988 2

3 Enter amount from Schedule B (Form 1041), line 11, for 1988 3

4 Distributable net income for 1988 (Subtract line 3 from line 2. If line 3 is more than line 2, enter zero.) . . 4

5 Accumulation distribution for 1988 (Subtract line 4 from line 1.) 5

Part II Ordinary Income Accumulation Distribution (Enter the applicable throwback years below.)

If the distribution is thrown back to more than five years (starting with the earliest applicable tax year beginning after December 31, 1968), attach additional schedules. (If the trust was a simple trust see Regulations section 1.665(e)-1A(b).)		**Throwback year ending** 19	**Throwback year ending** 19	**Throwback year ending** 19	**Throwback year ending** 19	**Throwback year ending** 19 ....
6 Distributable net income (see instructions)	**6**					
7 Distributions (see instructions) .	**7**					
8 Undistributed net income (subtract line 7 from line 6) . . .	**8**					
9 Enter amount from line 25 or line 31, Part III, as applicable .	**9**					
10 Subtract line 9 from line 8 . .	**10**					
11 Enter amount of prior accumulation distributions thrown back to any of these years	**11**					
12 Subtract line 11 from line 10 .	**12**					
13 Allocate the amount on line 5 to the earliest applicable year first. Do not allocate an amount greater than line 12 for the same year (see instructions) .	**13**					
14 Divide line 13 by line 10 and multiply result by line 9 .	**14**					
15 Add lines 13 and 14	**15**					
16 Tax-exempt interest included on line 13 (see instructions) . .	**16**					
17 Subtract line 16 from line 15 .	**17**					

For Paperwork Reduction Act Notice, see page 1 of the Instructions for Form 1041.

Part III Taxes Imposed on Undistributed Net Income (Enter the applicable throwback years below.)

If more than five throwback years are involved, attach additional schedules. If the trust received an accumulation distribution from another trust, see the regulations under sections 665-668 of the Internal Revenue Code.

If the trust elected the alternative tax on capital gain, **OMIT** lines 18 through 25 **AND** complete lines 26 through 31.		Throwback year ending 19........	Throwback year ending 19........	Throwback year ending 19........	Throwback year ending 19........	Throwback year ending 19........
(The alternative tax on capital gain was repealed for tax years beginning after December 31, 1978.)						
18 Tax (see instructions)	18					
19 Net short-term gain (see instructions)	19					
20 Net long-term gain (see instructions)	20					
21 Total net capital gain (add lines 19 and 20)	21					
22 Taxable income (see instructions)	22					
23 Enter percent (divide line 21 by line 22, but not more than 100%)	23	%	%	%	%	%
24 Multiply amount on line 18 by percent on line 23	24					
25 Tax on undistributed net income (Subtract line 24 from line 18. Enter here and on line 9.)	25					
If the trust did not elect the alternative tax on long-term capital gain, do **NOT** complete lines 26 through 31.						
26 Tax on income other than long-term capital gain (see instructions)	26					
27 Net short-term gain (see instructions)	27					
28 Taxable income less section 1202 deduction (see instructions)	28					
29 Enter percent (divide line 27 by line 28, but not more than 100%)	29	%	%	%	%	%
30 Multiply amount on line 26 by percent on line 29	30					
31 Tax on undistributed net income (Subtract line 30 from line 26. Enter here and on line 9.)	31					

Part IV Allocation to Beneficiary

Complete Part IV for each beneficiary. If the accumulation distribution is allocated to more than one beneficiary, attach an additional Schedule J with Part IV completed for each additional beneficiary. If more than five throwback years are involved, attach additional schedules.

Beneficiary's name

Identifying number

Beneficiary's address (number and street including apartment number or rural route)

City, state, and ZIP code

		Enter amount from line 13 allocated to this beneficiary **(a)**	Enter amount from line 14 allocated to this beneficiary **(b)**	Enter amount from line 16 allocated to this beneficiary **(c)**
32 Throwback year 19	32			
33 Throwback year 19	33			
34 Throwback year 19	34			
35 Throwback year 19	35			
36 Throwback year 19	36			
37 Total (add amounts on lines 32 through 36)	37			

SCHEDULE K-1
(Form 1041)

Department of the Treasury
Internal Revenue Service

Beneficiary's Share of Income, Deductions, Credits, Etc.—1988

for the calendar year 1988, or fiscal year

beginning ...., 1988, ending ...., 19 .....

Complete a separate Schedule K-1 for each beneficiary.

OMB No. 1545-0092

1988

Name of estate or trust

Beneficiary's identifying number ▶

Estate's or trust's employer identification number ▶

Beneficiary's name, address, and ZIP code

Fiduciary's name, address, and ZIP code

Reminder: *If you received a short year 1987 Schedule K-1 that was from a trust required to adopt a calendar year, be sure to include one-fourth of those amounts reported as income, in addition to the items reported on this Schedule K-1, on the appropriate lines of your 1988 Form 1040 and related schedules.*

	(a) Allocable share item	**(b)** Amount	**(c)** Calendar year 1988 Form 1040 filers enter the amounts in column (b) on:
1	Interest		Schedule B, Part I, line 2
2	Dividends		Schedule B, Part II, line 4
3a	Net short-term capital gain (or loss)		Schedule D, line 5, column (f) or (g)
b	Net long-term capital gain (or loss)		Schedule D, line 12, column (f) or (g)
4a	Other taxable income: (itemize)		Schedule E, Part III
(1)	Rental, rental real estate, and business income from activities acquired before 10/23/86		
(2)	Rental, rental real estate, and business income from activities acquired after 10/22/86		
(3)	Other income		
b	Depreciation (including cost recovery): (itemize)		
(1)	Attributable to line 4a(1)		
(2)	Attributable to line 4a(2)		
(3)	Attributable to line 4a(3)		
c	Depletion (itemize):		
(1)	Attributable to line 4a(1)		
(2)	Attributable to line 4a(2)		
(3)	Attributable to line 4a(3)		
d	Amortization (itemize):		
(1)	Attributable to line 4a(1)		
(2)	Attributable to line 4a(2)		
(3)	Attributable to line 4a(3)		
5	Distributable net alternative minimum taxable income		
6	Income for regular tax purposes (Add lines 1 through 4a)		
7	Adjustment for minimum tax purposes (Subtract line 6 from line 5)		See Form 6251, line 4t instructions
8	Estate tax deduction (including generation-skipping transfer taxes) (attach computation)		Schedule A, line 25
9	Excess deductions on termination (attach computation)		Schedule A, line 21
10	Foreign taxes (list on a separate sheet)		Form 1116 or Schedule A (Form 1040), line 7
11	Other (itemize):		
a	Trust payments of estimated taxes credited to you		Form 1040, line 55
b	Tax-exempt interest		Form 1040, line 8b
c			(Enter on applicable line of appropriate tax form)
d			
e			
f			
g			
h			

For Paperwork Reduction Act Notice, see page 1 of the instructions for Form 1041.

Instructions for Beneficiary Filing Form 1040

General Instructions

Name, Address, and Identifying Number.—Your name, address, and identifying number, the estate or trust name, address, and identifying number should have been entered on the Schedule K-1 you received.

Tax Shelters.—If you receive a copy of **Form 8271,** Investor Reporting of Tax Shelter Registration Number, and other tax shelter information from the estate or trust, or if the estate or trust is a tax shelter required to register under section 6111, see the instructions for Form 8271 to determine your reporting requirements.

Errors.—If you believe the estate or trust has made an error on your Schedule K-1, notify the fiduciary of the estate or trust and ask for a corrected Schedule K-1. Do not change any items on your copy. Be sure that the estate or trust sends a copy of the corrected Schedule K-1 to the IRS.

Specific Instructions

Reminder: *Be sure to report as a separate entry on the appropriate schedule of your 1988 Form 1040 one-fourth of any short-year distribution reported on your 1987 Schedule K-1 from a trust that was required to adopt the calendar year. Use the notation "PYA" to indicate the prior-year amount.*

Line 1. Interest.—Report the amount from line 1 (Schedule K-1) on your Schedule B (Form 1040), Part I, line 2.

Line 2. Dividends.—Report the amount from line 2 (Schedule K-1) on your Schedule B (Form 1040), Part II, line 4.

Line 3. Capital Gains.—Report the amount from line 3a (Schedule K-1) on your Schedule D (Form 1040), line 5, column (f) or (g). Report the amount from line 3b (Schedule K-1) on your Schedule D (Form 1040), line 12, column (f) or (g). If there is an attachment to this Schedule K-1 that reports a disposition of a rental, rental real estate, or passive business activity, see the instructions to Form 8582 for information on the treatment of dispositions of interests in a passive activity.

Lines 4a–4d.—Caution: *The limitations on passive activity losses and credits under section 469 apply to trusts and estates. At the time these instructions went to print, the rules for treating a beneficiary's income and directly allocable deductions from an estate or trust, and other rules for applying the passive loss and credit limitations to beneficiaries, had not been finalized. These rules will be provided in forthcoming regulations.*

Code section 469 provides rules that limit deductions from passive activities to the income from passive activities and credits from passive activities to the tax imposed on any net income from passive activities.

Line 11a.—For purposes of computing any underpayment and penalty on **Form 2210,** Underpayment of Estimated Tax by Individuals and Fiduciaries, you should treat the amount entered on line 11a as an estimated tax payment made on January 17, 1989.

Line 11b.—If any tax-exempt interest is entered on this line by the estate or trust, report it on Form 1040, line 8b.

Lines 11c–h.—The amount of gross farming and fishing income is included in "Other taxable income" on line 4. This income is also separately stated on line 11 to assist you in determining if you are subject to a penalty for underpayment of estimated tax.

- *Individual Beneficiaries.*—Report the amount of gross farming and fishing income on Schedule E (Form 1040), Part VI, line 43.
- *Beneficiaries That Are Estates or Trusts.*—Beneficiaries that are estates or trusts must pass through the amount of gross farming and fishing income included on line 11 of their Schedules K-1 to line 11 of their beneficiaries' Schedules K-1 on a pro rata basis.

Note: *The fiduciary's instructions are contained in the Form 1041 instructions.*

Form **1041-ES**

Department of the Treasury
Internal Revenue Service

Estimated Income Tax for Fiduciaries

(Section references are to the Internal Revenue Code.)

OMB No. 1545-0971

1989

Instructions

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	20 min.
Learning about the law or the form	10 min.
Preparing the form	1 hr., 10 min.
Copying, assembling, and sending the form to IRS	20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to the **Internal Revenue Service,** Washington, DC 20224, Attention : IRS Reports Clearance Officer, TF:FP; or the **Office of Management and Budget,** Paperwork Reduction Project, Washington, DC 20503.

Purpose of Form.—Use this form to figure and pay your estimated tax. *Estimated tax* is the amount of tax the fiduciary of an estate or trust expects to owe for the year after subtracting the amount of any tax withheld and the amount of any credits.

A. Who Must Make Estimated Tax Payments

Generally, a fiduciary of an estate or trust must pay estimated tax if the estate or trust is expected to owe, after subtracting its withholding and credits, at least $500 in tax for 1989 and can expect its withholding and credits to be less than the smaller of:

(1) 90% of the tax shown on the 1989 tax return, or

(2) 100% of the tax shown on the 1988 tax return (assuming the return covered all 12 months).

Exceptions.—Generally, no estimated tax is due if the income tax return for 1989 will show:

(1) A tax refund, or

(2) A tax balance due of less than $500.

Also, no estimated tax is payable if you are a fiduciary of the estate of a domestic decedent or domestic trust and there was no tax liability on the estate or trust for the full 12 months preceding the tax year.

Note: *Estates are only required to make estimated tax payments for any tax year ending two or more years after the decedent's death.*

Financial institutions that maintain a Treasury Tax and Loan (TT&L) account and administer at least 200 taxable trusts that are required to pay estimated tax, must submit the estimated tax payments on magnetic tape. See Revenue Procedure 87-64, 1987-2 C.B. 828.

B. How To Figure Estimated Tax

Use the Estimated Tax Worksheet on page 3, the 1989 Tax Rate Schedule in Instruction F, and the 1988 tax return as a guide for figuring the estimated tax.

Most of the items on the worksheet are self-explanatory. However, the instructions below provide additional information for filling out certain lines.

Line 4—Exemptions.—Note: *No exemption is allowed on the final return of an estate or trust.*

Estate.—The estate of a decedent is entitled to a $600 exemption.

Trust.—Any trust that is required by its governing trust instrument to distribute currently all its income is entitled to a $300 exemption. The $300 exemption is allowed regardless of whether the trust is a simple or complex trust.

Any trust that is not required by its governing instrument to distribute currently all its income is entitled to a $100 exemption. Generally, complex trusts will be entitled to a $100 exemption.

Line 8—Additional taxes.—Enter any additional taxes from:

- **Form 4970,** Tax on Accumulation Distribution of Trusts;
- **Form 4972,** Tax on Lump-Sum Distributions; or
- Section 644 tax on trusts.

Line 10—Credits.—For details on credits you may claim, see Form 1041, line 2 of Schedule G, and related instructions.

Line 12—Other taxes.—Enter any other taxes such as recapture of investment credit, and alternative minimum tax.

C. How To Use The Payment-Voucher

Each payment-voucher has the date when the voucher is due for calendar year taxpayers. Please use the correct voucher.

(1) Enter the trust's or estate's name, address, and employer identification number in the spaces provided on the payment-voucher.

(2) Enter the net amount of your payment on line 1 of the payment-voucher. If you paid too much tax on your 1988 Form 1041, you may have chosen to apply the overpayment to your estimated tax for 1989. If so, you may apply all or part of the overpayment to any voucher. **Send the payment-voucher to IRS ONLY when you are making a payment.**

(3) Enclose, but do not staple or attach, your check or money order with the payment voucher. Make the check or money order payable to "Internal Revenue Service." Please write the trust's or estate's employer identification number and "1989 Form 1041-ES" on the check or money order. Do not include any balance due on your Form 1041 with your check for estimated tax. Please fill in the Record of Estimated Tax Payments on page 3 so you will have a record of your payments.

(4) Mail your payment-voucher to the Internal Revenue Service Center where you are located. Use the address for your state shown on page 2.

If the 1989 Form 1041 is filed by January 31, 1990, and the entire balance due is paid at that time, then you do not need to make the payment which would otherwise be due January 16, 1990.

Farmers and fishermen.—If at least two-thirds of gross income for 1988 or 1989 is from farming or fishing, do one of the following:

- Pay the total estimated tax by January 16, 1990; or
- File Form 1041 for 1989 by March 1, 1990, and pay the total tax due. In this case, do not make estimated tax payments for 1989.

Fiscal year.—If your return is on a fiscal year basis, your due dates are the 15th day of the 4th, 6th, and 9th month of your fiscal year and the 1st month of the following fiscal year. If any date falls on a Saturday, Sunday, or legal holiday, use the next regular workday.

D. Penalty for Not Paying Enough Estimated Tax

Generally, if at least (1) 90% (66⅔% for farmers and fishermen) of the 1989 tax liability, (2) 100% of the tax shown on the 1988 return, or (3) 90% of the tax figured by annualizing the taxable income and alternative minimum taxable income , whichever is smallest, is not prepaid, a penalty for not paying enough estimated tax may be charged. To avoid this, make sure your estimate is as accurate as possible. If you are unsure of the estimate, pay, if necessary, more than 90% (or 66⅔%) of the amount shown on line 16.

If the annualized income installment method under section 6654(d)(2) is used, one less month's income is taken into consideration for computation of estimated taxes. For example, a calendar year trust would compute its first installment due April 17, 1989, based on the annualized income for January and February.

Note: *The penalty may be waived by IRS under certain conditions, such as casualty, disaster, or other unusual circumstances.*

Caution: *You may be required to make payments of past due amounts to avoid further penalty. You may have to make these payments if you do not make your estimated tax payments on time, or if you did not pay the correct amount for a previous payment date.*

Example: On June 1, 1989, you find out that you should have made an estimated tax payment for April 17. You should immediately fill out the payment-voucher due April 17, 1989, and send in the required amount (¼ × 1989 estimated tax).

For more information, see **Publication 505,** Tax Withholding and Estimated Tax.

E. Certain Payments of Estimated Tax Treated as Paid by Beneficiary

If the payments of estimated tax for 1989 exceed the tax liability shown on the 1989 Form 1041, the fiduciary may elect to treat any portion of the overpayment as a payment made by a beneficiary (and not as a payment made by the fiduciary).

Such an amount is treated as a payment of the estimated tax made by the beneficiary which would otherwise be due January 16, 1990.

Time for making election.—The fiduciary must make the election on the 1989 **Form 1041-T,** Transmittal of Estimated Taxes Credited to Beneficiaries, and attach it to Form 1041. The election must be filed on or before the 65th day after the close of the tax year. See section 643(g).

Note: *Recently enacted legislation allows a fiduciary of an estate to make a section 643(g) election if it overpaid its estimated income tax in the final tax year of the estate. IRS will issue guidance as to how and when the estate's fiduciary makes this election.*

F. 1989 Tax Rate Schedule

Estates and trusts:
If line 6 of the Worksheet is:

Over—	But not over—	The tax is:	Of the amount over—
$0	$5,200	15%	$0
5,200	13,500	$780 + 28%	5,200
13,500	27,020	3,104 + 33%	13,500
27,020	....	28%	-0-

Line 17—Installment Amount.—Use the following table to determine the due date of each installment and the amount of each installment. If any date falls on a Saturday, Sunday, or legal holiday, substitute the next regular workday. You may either pay all of your estimated tax with your first payment or pay in installments when due. An estate or trust may elect to apply its 1988 overpayment against its 1989 tax. If so, you may apply all or part of the overpayment to any installment.

If the requirement to make estimated tax payments is first met—	The number of installments to make is—	And the estate or trust should pay the following percentages of the estimated tax by the 15th day of the—			
		4th month	6th month	9th month	1st month of the next year
Before the 1st day of the 4th month of the tax year	4	25	25	25	25
After the last day of the 3rd month and before the 1st day of the 6th month of the tax year	3	▨	50	25	25
After the last day of the 5th month and before the 1st day of the 9th month of the tax year	2	▨	▨	75	25
After the last day of the 8th month	1	▨	▨	▨	100

G. Where To File Your Payment-Voucher

Caution: *File your Form 1041-ES payment-vouchers only at the addresses given below. DO NOT file them at the addresses given for the Form 1040-ES vouchers.*

If you are located in: ▼	Please mail to the following Internal Revenue Service Center: ▼
New Jersey, New York (New York City and counties of Nassau, Rockland, Suffolk, and Westchester)	Holtsville, NY 00501
New York (all other counties), Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Florida, Georgia, South Carolina	Atlanta, GA 39901
Indiana, Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888
Illinois, Iowa, Minnesota, Missouri, Wisconsin	Kansas City, MO 64999
Alabama, Arkansas, Louisiana, Mississippi, North Carolina, Tennessee	Memphis, TN 37501
Delaware, District of Columbia, Maryland, Pennsylvania, Virginia, any U.S possession, or foreign country	Philadelphia, PA 19255

1989 Estimated Tax Worksheet (Do Not File—Keep for Your Records)

1	Enter amount of adjusted total income you expect in 1989			1	
2	Enter income distribution deduction	2			▨
3	Enter amount of estate tax deduction	3			▨
4	Enter exemption amount (see line 4 Instructions)	4			▨
5	Total (add lines 2 through 4)			5	
6	Taxable income of fiduciary (subtract line 5 from line 1)			6	
7	Tax (Figure your tax on line 6 by using the 1989 Tax Rate Schedule, Instruction F, in these Instructions.)			7	
8	Enter any additional taxes (see line 8 Instructions)			8	
9	Total (add lines 7 and 8)			9	
10	Credits (see line 10 Instructions)			10	
11	Balance (subtract line 10 from line 9)			11	
12	Other taxes (see line 12 Instructions)			12	
13	Total (add lines 11 and 12) (Reduce this total by any credit you expect to claim on Form 4136.)			13	
14a	Enter 90% (66⅔% for farmers and fishermen) of line 13	14a			
b	Enter 100% of the tax shown on your 1988 Form 1041	14b			
c	Enter the smaller of lines 14a or 14b			14c	
15	Income tax withheld and estimated to be withheld during 1989 and other credits (see line 15 Instructions)			15	
16	**Balance.**—(Subtract line 15 from line 14c.) (**Note:** *If line 13 minus line 15 is less than $500, you are not required to make estimated tax payments.)*			16	
17	**Installment Amount.**—If the first payment you are required to make is due April 17, 1989, enter ¼ of line 16 (less any 1988 overpayment that you are applying to this installment) here and on line 1 of your payment-voucher(s). Otherwise, see the instructions for line 17. You may round off cents to the nearest whole dollar			17	

Record of Estimated Tax Payments

Payment number	(a) Date	(b) Amount	(c) 1988 overpayment credit applied	(d) Total amount paid and credited (add (b) and (c))
1				
2				
3				
4				
Total ▶				

Amended Estimated Tax Schedule (Use if estimated tax changes during the year)

1	Amended estimated tax			1	
2a	Amount of 1988 overpayment chosen for credit to 1989 estimated tax and applied to date	2a			▨
b	Estimated tax payments to date	2b			▨
c	Total (Add lines 2a and 2b)			2c	
3	Unpaid balance (Subtract line 2c from line 1.)			3	
4	Amount to be paid			4	

Tear off here

Form **1041-ES**

Department of the Treasury
Internal Revenue Service

1989
Payment-Voucher

OMB No. 1545-0971

Return this voucher with check or money order payable to the Internal Revenue Service.
Please do not send cash or staple your payment to this voucher.

(Calendar year—Due Jan. 16, 1990)

Please write the trust's or estate's EIN and "1989 Form 1041-ES" on your check or money order.

1 Amount of payment $ ____________

2 Fiscal year filers–enter year ending

____________ (month and year)

File only if you are making a payment of estimated tax.

Please type or print

Employer identification number

Name of estate or trust

Name and title of fiduciary

Address (number and street or P.O. Box)

City, state, and ZIP code

Tear off here

Form **1041-ES**
Department of the Treasury
Internal Revenue Service

1989
Payment-Voucher

Return this voucher with check or money order payable to the Internal Revenue Service.
Please do not send cash or staple your payment to this voucher.

OMB No 1545-0971

(Calendar year—Due Sept. 15, 1989)

Please write the trust's or estate's EIN and "1989 Form 1041-ES" on your check or money order.

1 Amount of payment $

2 Fiscal year filers–enter year ending

(month and year)

File only if you are making a payment of estimated tax

Please type or print

Employer identification number

Name of estate or trust

Name and title of fiduciary

Address (number and street or P.O. Box)

City, state, and ZIP code

Tear off here

Form **1041-ES**
Department of the Treasury
Internal Revenue Service

1989
Payment-Voucher

Return this voucher with check or money order payable to the Internal Revenue Service.
Please do not send cash or staple your payment to this voucher.

OMB No 1545-0971

(Calendar year—Due June 15, 1989)

Please write the trust's or estate's EIN and "1989 Form 1041-ES" on your check or money order.

1 Amount of payment $

2 Fiscal year filers–enter year ending

(month and year)

File only if you are making a payment of estimated tax

Please type or print

Employer identification number

Name of estate or trust

Name and title of fiduciary

Address (number and street or P.O. Box)

City, state, and ZIP code

Tear off here

Form **1041-ES**
Department of the Treasury
Internal Revenue Service

1989
Payment-Voucher

Return this voucher with check or money order payable to the Internal Revenue Service.
Please do not send cash or staple your payment to this voucher.

OMB No 1545-0971

(Calendar year—Due April 17, 1989)

Please write the trust's or estate's EIN and "1989 Form 1041-ES" on your check or money order.

1 Amount of payment $

2 Fiscal year filers–enter year ending

(month and year)

File only if you are making a payment of estimated tax

Please type or print

Employer identification number

Name of estate or trust

Name and title of fiduciary

Address (number and street or P.O. Box)

City, state, and ZIP code

Form **1041S**

Department of the Treasury
Internal Revenue Service

U.S. Fiduciary Income Tax Return for Nontaxable Simple Trusts

For the calendar year 1988

OMB No. 1545-0960

1988

Name of simple trust

Employer identification number

Name and title of fiduciary

Date trust created

Address of fiduciary (number and street)

City, state, and ZIP code

Check applicable box(es):
- ☐ Initial return
- ☐ Amended return
- ☐ Final return

Note: *All taxable trusts, grantor trusts, and estates must use Form 1041.*

Number of Schedules K-1 attached ▶

Income

1	Dividends	1	
2	Interest income	2	
3	Income (or losses) from partnerships, estates, or other trusts	3	
4	Net royalty income (or loss) (attach Schedule E (Form 1040))	4	
5	Net business and farm income (or loss) (attach Schedules C and F (Form 1040))	5	
6	Ordinary gain (or loss) (attach Form 4797)	6	
7	Other income (state nature of income)	7	
8	**Total** income (add lines 1 through 7) ▶	8	

Deductions

9	Interest	9		▨	
10	Taxes	10		▨	
11	Fiduciary fees	11		▨	
12	Accountant, attorney, and return preparer fees	12		▨	
13	Other deductions (itemize on a separate sheet)	13		▨	
14	**Total** (add lines 9 through 13) ▶			14	
15	Adjusted total income (or loss) (subtract line 14 from line 8)			15	
16	Income distribution deduction (attach Schedule K-1 (Form 1041))			16	
17	Balance (subtract line 16 from line 15) (see instructions) ▶			17	

Other Information

		Yes	No
1	If the fiduciary's name or address has changed enter the old information ▶	▨	▨
2	Did the trust receive tax-exempt income? (If "Yes," attach a computation of the allocation of expenses.)		
	Enter the amount of tax-exempt interest income ▶ $	▨	▨
3	Did the trust receive all or any part of the earnings (salary, wages, and other compensation) of any individual by reason of a contract assignment or similar arrangement?		
4	Was the trust the grantor of, or transferor to, a foreign trust which existed during the current tax year, whether or not the trust has any beneficial interest in it? (If "Yes," you may have to file Form 3520, 3520-A, or 926)		
5	At any time during the tax year, did the trust have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See the Instructions for exceptions and filing requirements for Form TD F 90-22.1.)		
	If "Yes," write the name of the foreign country ▶		

6 Check this box if this trust has filed or is required to file **Form 8264,** Application for Registration of a Tax Shelter ▶ ☐

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than fiduciary) is based on all information of which preparer has any knowledge.

▶ Signature of fiduciary or officer representing fiduciary

▶ Date

Paid Preparer's Use Only

Preparer's signature ▶

Date

Check if self-employed ▶ ☐

Preparer's social security no.

Firm's name (or yours, if self-employed) and address ▶

E.I. No. ▶

ZIP code ▶

For Paperwork Reduction Act Notice, see page 1 of the instructions.

Form **1041S** (1988)

1988

Department of the Treasury
Internal Revenue Service

Instructions for Form 1041S and Schedule K-1 (Form 1041)

U.S. Fiduciary Income Tax Return for Nontaxable Simple Trusts

(Section references are to the Internal Revenue Code unless otherwise noted.)

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

The time needed to complete and file these forms will vary depending on individual circumstances. The estimated average times are:

	Form 1041S	Schedule K-1
Recordkeeping	1 hr., 5 min.	1 hr., 5 min.
Learning about the law or the form	21 min.	15 min.
Preparing the form	37 min.	26 min.
Copying, assembling, and sending the form to IRS	20 min.	20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making these forms more simple, we would be happy to hear from you. You can write to the **Internal Revenue Service,** Washington, DC 20224, Attention: IRS Reports Clearance Officer, TR:FP; or the **Office of Management and Budget,** Paperwork Reduction Project, Washington, DC 20503.

Changes You Should Note

- Some trustees have new filing locations. See "Where To File."
- Trusts can request an automatic 3-month extension of time to file by using new **Form 8736,** Application for Automatic Extension of Time To File Return for a U.S. Partnership or for Certain Trusts.
- For tax years beginning in 1988, only 40% of personal interest paid is deductible.

General Instructions

Purpose of Form.—The fiduciary may use Form 1041S to report the income and deductions of a simple trust. Trusts that do not meet the filing requirements listed below, and are otherwise required to file an income tax return, must use **Form 1041,** U.S. Fiduciary Income Tax Return.

Who Can Use Form 1041S.—Form 1041S can only be used by a domestic "Simple Trust" that has:

(1) No tax liability;

(2) No amounts reportable on **Schedule D (Form 1041),** Capital Gains and Losses;

(3) No charitable contribution deduction;

(4) No rental income, loss or credit;

(5) No other passive activity income, losses or credits; and

(6) A trust instrument that requires all of the current income of the trust to be distributed to the beneficiary(ies) during the tax year.

Who Must File a Return.—The fiduciary (or one of the joint fiduciaries) of a trust must file Form 1041S or Form 1041 (if the filing criteria for Form 1041S are not met) for a domestic trust that has:

(a) Any taxable income for the tax year, or

(b) Gross income of $600 or more regardless of the taxable income, or

(c) A beneficiary who is a nonresident alien.

If you are a fiduciary of a nonresident alien trust, you should file **Form 1040NR,** U.S. Nonresident Alien Income Tax Return.

Definitions

Simple Trust.—A trust may qualify as "simple" if the trust instrument:

(1) Requires that all income must be distributed currently;

(2) Does not allow amounts to be paid, permanently set aside, or used in the tax year for charitable purposes; and

(3) The trust does not distribute amounts allocated to the corpus of the trust.

Fiduciary.—Fiduciary means trustee of a trust.

Income Required To Be Distributed Currently.—Income required to be distributed currently generally means income that is required to be distributed in the year it is received except as explained in Regulations section 1.651(a)-2.

Trust Instrument.—You do not have to file a copy of the trust instrument unless IRS requests it. If IRS requests it, file a copy (including any amendments) with the following:

- A signed statement that, under the penalties of perjury, the copy of the trust instrument is true and complete.
- A statement naming the provisions of the trust instrument that you believe determine how the income is to be split up among the trust, the grantor (if applicable), and the beneficiaries.

Additional Returns You May Have To File.—You may also be required to file the following:

- **Form 56,** Notice Concerning Fiduciary Relationship.
- **Form 706,** United States Estate (and Generation-Skipping Transfer) Tax Return.
- **Form 1099-B,** Statement for Recipients of Proceeds From Broker and Barter Exchange Transactions, unless excepted from filing by regulations.
- **Form 1099-INT,** Statement for Recipients of Interest Income.
- **Form 1099-MISC,** Statement for Recipients of Miscellaneous Income.

Note: *The above 1099 forms do not have to be filed if it would result in the duplication of income information required to be reported on Schedule K-1 of Form 1041.*

- **Form 8656,** Alternative Minimum Tax—Fiduciaries.

Period Covered by the Return.— All trusts filing Form 1041S must file for the calendar year 1988.

Common Trust Funds.—Trusts that are participants in a Common Trust Fund (CTF) that must include items from more than one tax year of the CTF in 1988 because the CTF was required to adopt the calendar year under section 1008(e) of the Technical and Miscellaneous Revenue Act of 1988 must include ratably in income in each of the first 4 tax years beginning after December 31, 1987, income, in excess of expenses from the short tax year of the CTF.

When To File.—File Form 1041S by April 17, 1989.

Extension of Time To File.—Use Form 8736 to request an automatic 3-month extension of time to file.

If more time is needed, file **Form 8800,** Application for Additional Extension of Time To File Return for a U.S. Partnership or for Certain Trusts. For more information, see Regulations section 1.6081-3T.

Where To File

If you are located in ▼	Please mail to the following Internal Revenue Service Center ▼
New Jersey, New York (New York City, and counties of Nassau, Rockland, Suffolk, and Westchester)	Holtsville, NY 00501
New York (all other counties), Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Florida, Georgia, South Carolina	Atlanta, GA 39901
Indiana, Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888
Illinois, Iowa, Minnesota, Missouri, Wisconsin	Kansas City, MO 64999
Alabama, Arkansas, Louisiana, Mississippi, North Carolina, Tennessee,	Memphis, TN 37501
Delaware, District of Columbia, Maryland, Pennsylvania, Virginia, any U.S. possession, or foreign country	Philadelphia, PA 19255

At-Risk Loss Limitations.—Generally, the amount the trust has "at risk" limits the loss you can deduct for any tax year. Use **Form 6198,** Computation of Deductible Loss From an Activity Described in Section 465(c), to figure the deductible loss for the year and file it with Form 1041S. For more information, see **Publication 559,** Tax Information for Survivors, Executors, and Administrators, and **Publication 925,** Passive Activity and At-Risk Rules.

Passive Activity Loss Limitations.—If the simple trust receives income from passive activities (e.g. rental income), Form 1041S cannot be used, and instead the trust must file Form 1041.

Form 8582, Passive Activity Loss Limitations, is used to compute the amount of allowable passive activity loss.

For a detailed discussion of passive activity loss limitations, see the instructions to Form 1041.

Special Rule for Blind Trust.—If you are reporting income from a qualified blind trust (under the "Ethics in Government Act of 1978"), do not identify the payer of any income to the trust but complete the rest of the return as provided in the instructions. Also write "Blind Trust" at the top of page 1.

Unresolved Tax Problems.—IRS has a Problem Resolution Program for taxpayers who have been unable to resolve their problems with IRS. If you have a tax problem you have been unable to resolve through normal channels, write to your local IRS District Director, or call your local IRS office and ask for Problem Resolution assistance. Although this office cannot change the tax law or technical decisions, it can assist in resolving problems that resulted from previous contacts.

Specific Instructions

Employer Identification Number (EIN).—Use **Form SS-4,** Application for Employer Identification Number, to apply for the EIN for the trust. You may get this form from IRS or the Social Security Administration. A separate EIN is required for each trust. See **Publication 583,** Information for Business Taxpayers, for more information.

Identification Area

Please copy the exact name of the trust from the Form SS-4 that you used to apply for the number.

Initial Return.—Check this box if this is the first return being filed by the trust. Also, be sure to enter the date the trust was created in the space provided.

Amended Return.—If you are filing an amended Form 1041S, check the amended return box. Complete the entire return and correct the appropriate line(s) with the new information. On an attached sheet explain the reason for the amendment(s) and identify the line(s) and amount(s) being changed on the amended return.

If the amended return results in a change to income, or a change in distribution of any income or other information provided to a beneficiary, an amended Schedule K-1 (Form 1041) must also be filed with the amended Form 1041S and given to each beneficiary. Write "AMENDED" across the top of the corrected Schedule K-1.

Final Return.—Check this box if this is a final return because the trust has terminated. If there is an unused loss carryover or excess deductions on the final return, see "Unused loss carryover" and "Excess deductions on termination" on page 4. Figure the deductions on an attached sheet.

Number of Schedules K-1 Attached.—Indicate the number of Schedules K-1 (Form 1041) that are attached.

Line-by-Line Instructions

Rounding Off to Whole-Dollar Amounts.—You may show the money items on the return and accompanying schedules as whole-dollar amounts. To do so, drop any amount less than 50 cents and increase any amount from 50 cents through 99 cents to the next higher dollar.

Income

Line 1. Dividends.—Enter the total of all taxable dividends.

Line 2. Interest income.—Enter the total of all taxable interest including any original issue discount, and income received as a regular holder of a Real Estate Mortgage Investment Conduit (REMIC). See **Publication 550,** Investment Income and Expenses.

Line 3. Income or (losses) from partnerships, estates, or other trusts.—Enter the total income or (losses) from all partnerships, estates, or other trusts except: (a) Dividends (enter on line 1); and (b) Interest (enter on line 2).

Write the name of the partnerships, estates, or other trusts, and the EIN on line 3. If the amount entered on line 3 is from more than one source, then list the names and numbers and also identify the amount from each source on an attached sheet.

Note: *Any losses from passive activities may be limited. See the Form 1041 instructions for a discussion of "Passive Activity Loss Limitations," and DO NOT complete this form.*

Line 4. Royalty income.—Enter the net royalty income. Attach **Schedule E (Form 1040),** Supplemental Income Schedule, to show the fiduciary's share of income and expenses, including depreciation and depletion.

Divide the deductions for amortization, depreciation, and depletion between the fiduciary and the beneficiaries as specified in the trust instrument.

See Regulations sections 1.642(e)-1, 1.167(f)-1, 1.167(h)-1, and 1.611-1(c) for more information about the allocation of these deductions.

Attach **Form 4562,** Depreciation and Amortization, to explain any depreciation and amortization deduction. Attach a separate computation to explain any depletion deduction.

Note: *A simple trust cannot make an election under section 179 to expense certain depreciable business assets.*

Line 5. Net business and farm income or (loss).—Enter the net profit or (loss) from business and farming during the tax year. Attach **Schedule C (Form 1040),** Profit or (Loss) From Business, to report the business income or (loss). Attach **Schedule F (Form 1040),** Farm Income and Expenses, to report the farm income or (loss). Complete all information on Schedules C and F (Form 1040) that applies to the trust.

See the instructions for lines 4 and 13 for more information on dividing the deductions for amortization, depreciation, and depletion between the fiduciary and the beneficiaries.

If the fiduciary does not materially participate in the conduct of the trade or business, passive activity loss limitations may apply. Use Form 1041.

Line 6. Ordinary gain or (loss).—Enter from **Form 4797,** Sales of Business Property, the gain or (loss) from the sale or exchange of property other than capital assets and also from involuntary conversions (other than casualty or theft).

Line 7. Other income.—Enter income not reportable elsewhere. State the nature of the income. Attach a separate sheet, if necessary.

If the trust is a residual holder of a REMIC, enter the trust's share of taxable income here. You should receive **Schedule Q (Form 1066)** and instructions from the REMIC for each quarter.

See Part IV, Schedule E, Form 1040 Instructions for reporting requirements, and attach Schedule E (Form 1040).

Deductions

Generally an accrual basis taxpayer can deduct accrued expenses in the tax year that all events have occurred that determine the liability, and the amount of the liability can be figured with reasonable accuracy. Generally, all the events that establish liability are treated as occurring only when economic performance takes place. There are exceptions for recurring items. See section 461(h).

Allocation of Deductions for Tax-Exempt Income.—All deductions entered on lines 9 through 13 must include only the fiduciary's deductions related to taxable income. If the trust has tax-exempt income, the amount included on lines 9 through 13 must be reduced by the allocable portion attributed to tax-exempt income. The allocable amounts to be included on lines 9 through 13 are determined as follows:

- *Percentage of tax-exempt income to gross income.*—Divide the total tax-exempt income received by the total of all items of gross income (including tax-exempt income) included in distributable net income.
- *Excludable amount of each specific deduction.*—Multiply the percentage of tax-exempt income by each specific deduction.
- *Amount deductible on lines 9 through 13.*—Subtract the excludable amount of each specific deduction from the specific deduction and enter the balance on the appropriate line. For more information, see Publications 550 and 559.

Line 9. Interest.—Enter any deductible interest paid or accrued that is not deductible elsewhere on Form 1041S. Do not include interest on a debt that was incurred or continued in order to buy or carry obligations that yield tax-exempt interest. If unpaid interest is due related persons, see **Publication 545,** Interest Expense.

For tax years beginning in 1988, only 40% of the personal interest deduction is allowable. Personal interest does not include:

(1) Interest paid or accrued on indebtedness incurred in connection with the conduct of a trade or business;

(2) Any investment interest;

(3) Any interest which is taken into account under section 469 in computing income or loss from a passive activity; or

(4) Any "qualified residence interest."

See section 163(h)(3) for a definition of "qualified residence interest" and limitations on indebtedness.

Generally, "investment interest" is interest that is paid or accrued on indebtedness that is properly allocable to property held for investment. Investment interest does not include any "qualified residence interest," or interest that is taken into account under section 469 in computing income or loss from a passive activity.

Note: *Interest allocable to a passive activity cannot be deducted on this form. Instead, use Form 1041.*

Generally, net investment income is the excess of investment income over investment expenses. Investment expenses are those expenses (other than interest) allowable after application of the 2% floor on miscellaneous itemized deductions.

The amount of investment interest deduction is limited. Use **Form 4952,** Investment Interest Expense Deduction, to compute the allowable investment interest deduction.

Any disallowed investment interest expense is allowed as a carryforward to the next tax year. See section 163(d) and Publication 550 for more information.

If investment interest expense is deductible, write "Form 4952 attached" on line 9. Then add the deductible interest figured on Form 4952 to the other types of deductible interest and enter the total on line 9.

Note: *See section 1277 for rules on the deferral of the interest deduction that is allocable to accrued market discount on bonds acquired after July 18, 1984, and section 1282 for rules on the deferral of the interest deduction that is allocable to the accrued discount on certain short-term obligations acquired after July 18, 1984.*

Line 10. Taxes.—Enter any deductible taxes paid or accrued during the tax year that are not deductible elsewhere on Form 1041S. State and local sales taxes are not deductible. Instead, they are to be treated, respectively, as part of the cost of the property upon acquisition, or as a reduction in the amount realized upon disposition.

Deductible taxes include state or local income or real property taxes.

Line 11. Fiduciary fees.—Enter the deductible fees paid to the fiduciary for administering the trust during the tax year.

Line 12. Attorney, accountant, and return preparer fees.—Enter the deductible attorney, accountant, and return preparer fees paid for the trust during the tax year.

Line 13. Other deductions.—Attach a separate sheet listing all authorized deductions that are not deductible elsewhere on Form 1041S. Enter the total on line 13.

Certain miscellaneous itemized deductions are deductible only to the extent that the aggregate amount of such deductions exceeds two percent of the adjusted gross income (AGI) of the trust. For a simple trust, the AGI is computed by subtracting the following from total income (line 8):

(1) the administration costs of the trust;

(2) the income distribution deduction under section 651; and

(3) the amount of the exemption under section 642(b) which, for a simple trust, is $300.

Allowable administration costs are those costs incurred with the administration of the trust which would not have been incurred if the property were not held in trust.

In determining the income distribution deduction, the distributable net income (DNI) must be computed taking into account the allowable miscellaneous itemized deduction (AMID) (after application of the two percent floor). To compute the AMID you must first determine the AGI. To compute the AGI you must determine the DNI of the estate or trust because the AMID is allowable as a deduction in computing the DNI. Therefore, it is necessary to perform an interrelated computation for the two unknown factors, the first factor being the AMID, and the second, the DNI.

One method which can be used is to solve a simultaneous equation with the unknown factor being the AMID. Subtract from the gross miscellaneous itemized deductions the two percent floor expressed as a function of DNI.

See **Publication 529,** Miscellaneous Deductions, for more information on expenses of producing income.

Casualty and theft losses.—Use **Form 4684,** Casualties and Thefts, to report casualty and theft losses.

Fiduciary's share of amortization, depreciation, and depletion not claimed elsewhere.—If you cannot deduct the amortization, depreciation, and depletion as royalty expenses on Schedule E (Form 1040), or as business or farm expenses on Schedules C or F (Form 1040), itemize the fiduciary's share of the deductions on an attached sheet. Then include them on line 13. Itemize each beneficiary's share of the deductions on the appropriate line of Schedule K-1 (Form 1041).

See the instructions for line 4 for more information.

For the rules on the tax year for which a deduction is claimed including the limit for expenses paid in advance, see Publication 538.

Line 15. Adjusted total income or (loss).—If the amount on line 14 is more than the amount on line 8, then you have excess deductions. Excess deductions can only be distributed to a beneficiary on the final return of the trust. For more information, see the instructions for Schedule K-1, line 9.

Line 16. Income distribution deduction.—Enter the total amount of income required to be distributed currently.

Note: *If the amount shown on line 15 exceeds line 16 by more than $300, then you cannot use this form. Instead, you must file Form 1041.*

Line 17. Balance.—Subtract line 16 from line 15. If the balance is more than $300, the trust is a taxable trust and must use Form 1041. If the balance is $300 or less, enter zero on line 17. Any trust that is required by its governing instrument to distribute currently all of its income is allowed an exemption deduction of $300.

Other Information

Question 2.—If the trust received tax-exempt income, figure the allocation of expenses between tax-exempt and taxable income on a separate sheet and attach it to the return. Enter only the deductible amounts on the return. Do not figure the allocation on the return itself.

Report the amount of tax-exempt interest income received or accrued in the space provided below Question 2. Also, include any exempt-interest dividends received as a shareholder in a mutual fund or other regulated investment company.

For more information, see Publications 550 and 559.

Question 3.—All salaries, wages, and other compensation for personal services must be included in the return of the person who earned the income, even though the income was irrevocably assigned to a trust by a contract assignment or similar arrangement.

The grantor or person creating the trust is considered the owner if he or she keeps "beneficial enjoyment" of or substantial control over the trust property. The trust's income, deductions, and credits are allocable to the owner.

If you checked "Yes" for Question 3, see the discussion on "Grantor Type Trust" included in the instructions for Form 1041.

Question 5.—Check the "Yes" box and enter the name of the foreign country if either (1) or (2) below applies.

(1) At any time during the year the trust had an interest in or signature or other authority over a bank account, securities account, or other financial account in a foreign country. **Exception:** Check "No" if:

- The combined value of the accounts was $10,000 or less during the whole year; OR
- The accounts were with a U.S. military banking facility operated by a U.S. financial institution.

(2) The trust owns more than 50% of the stock in any corporation that owns one or more foreign bank accounts.

Get **Form TD F 90-22.1,** Report of Foreign Bank and Financial Accounts, to see if the trust is considered to have an interest in or signature or other authority over a bank account, securities account, or other financial account in a foreign country.

If you checked "Yes" for Question 5, file Form TD F 90-22.1 by June 30, 1989, with the Department of the Treasury at the address shown on the form. Form TD F 90-22.1 is not a tax return, so do not file it with Form 1041S. You may order Form TD F 90-22.1 from an IRS Forms Distribution Center.

Signature

Form 1041S must be signed by the fiduciary or by an authorized representative.

If you fill in your own return, the Paid Preparer's space should remain blank. If someone prepares your return and does not charge you, that person should not sign your return.

Generally, anyone who is paid to prepare your tax return must sign your return and fill in the other blanks in the Paid Preparer's Use Only area of your return.

The person required to sign your return must complete the required preparer information and:

- Sign it, by hand, in the space provided for the preparer's signature. (Signature stamps and labels are not acceptable.)
- Give you a copy of your return in addition to the copy to be filed with IRS.

Tax return preparers should know their responsibilities. These are described in **Publication 1045**, Information for Tax Practitioners.

Instructions for Schedule K-1 (Form 1041)

General Instructions

Purpose of Form.—File Schedule K-1 (Form 1041) with Form 1041S to report the beneficiary's income from the simple trust.

Who Must File.—The fiduciary (or one of the joint fiduciaries) must file Schedule K-1. A copy of each beneficiary's Schedule K-1 is attached to Form 1041S filed with the IRS and each beneficiary is to be given a copy of his or her respective Schedule K-1. One copy of each Schedule K-1 must be retained for the fiduciary's records.

Beneficiary's Identifying Number.—As a payer of income, you are required under section 6109 to request and provide a proper identifying number for each recipient of income. Enter this number on all Schedules K-1 when you file your return. Individuals and business recipients are responsible for giving you their taxpayer identification numbers upon request. You may use **Form W-9**, Request for Taxpayer Identification Number and Certification, to request the beneficiary's identifying number.

Penalty.—Under section 6676, the payer is charged a $50 penalty for each failure to provide a required taxpayer identification number, unless reasonable cause is established for not providing it. If reasonable cause exists, please explain in a signed affidavit and attach to this return.

Tax Shelter's Identification Number.—If the trust is a tax shelter, is involved in a tax shelter, or is considered to be the organizer of a tax shelter, there are reporting requirements under section 6111 for both the fiduciaries and the beneficiaries.

See **Form 8264**, Application for Registration of a Tax Shelter, and **Form 8271**, Investor Reporting of Tax Shelter Registration Number, and their related instructions for information regarding the fiduciary's reporting requirements to the IRS and the information that must be provided to the beneficiaries.

Substitute Forms.—You do not need prior IRS approval for substitute Schedules K-1 that follow the specifications in Publication 1167; or that are an exact copy of an IRS Schedule K-1. You must have prior approval for any other substitute Schedules K-1. You may apply for it by writing to: Internal Revenue Service; 1111 Constitution Avenue, NW; Washington, DC, 20224; Attention: TR:R.

Beneficiary's Income.—If no special computations are required, use the following instructions to compute the beneficiary's income from the trust. In other cases, see Publication 559, section 652, and related regulations.

Income.—The beneficiary must include in gross income the amounts paid, credited, or required to be distributed.

Gifts and Bequests.—Do not include in the beneficiary's income any gifts or bequests of a specific sum of money or of specific property under the terms of the governing instrument that are paid or credited in three installments or less.

Amounts that can be paid or credited only from income of the trust do not qualify as a gift or bequest of a specific sum of money.

Past Years.—Do not include in the beneficiary's income amounts deducted on Form 1041 (or Form 1041S) for an earlier year that were credited or required to be distributed in that earlier year.

Beneficiary's Tax Year.—The beneficiary's income from the trust must be included in the beneficiary's tax year during which the tax year of the trust ends. See Publication 559 for more information, including the effect of the death of a beneficiary during the tax year of the trust.

Line-by-Line Instructions

Line 1. Interest.—Enter the beneficiary's share of taxable interest income.

Line 2. Dividends.—Enter the beneficiary's share of the dividend income.

Lines 4a through 4d.—If the fiduciary has income or deductions from more than one trade or business activity, attach a separate schedule showing the income or deductions (and the allocation of any depreciation, depletion, or amortization attributable to each activity).

Line 4a. Other taxable income.—Itemize by type of income the beneficiary's share of the other taxable income not reportable on lines 1 and 2.

Line 4b. Depreciation (including cost recovery).—Enter the beneficiary's share of the depreciation deductions. See the instructions on page 2, line 4, for allocating the beneficiaries' share of depreciation between the beneficiaries and the trust.

Line 4c. Depletion.—Enter the beneficiary's share of depletion deduction under section 611 attributable to each activity reported on lines 4a(1)-(3). See the instructions for line 4 on page 2 for a discussion of the allocation of the depletion deduction between the beneficiaries and the trust.

Line 4d. Amortization deductions.—Itemize the beneficiary's share of the amortization deductions. Divide the amortization deductions between the fiduciary and the beneficiaries in the same way that the depreciation and depletion deductions are divided.

Line 5. Distributable net alternative minimum taxable income.—Enter the beneficiaries' share of distributable net alternative minimum taxable income (DNAMTI) (i.e., the income distribution deduction computed on a minimum tax basis) from Form 8656.

Use **Form 8656,** Alternative Minimum Tax—Fiduciaries, to compute: (1) the DNAMTI; (2) the trust's alternative minimum taxable income; and (3) the trust's alternative minimum tax. If the trust has an alternative minimum tax liability, it cannot use Form 1041S. Instead, it must file Form 1041.

Every trust must complete Parts I and II of Form 8656, regardless of whether it is liable for the alternative minimum tax. Be sure to attach Form 8656 to Form 1041S.

Line 9. Excess deductions on termination.—If this is the final return and there are excess deductions on termination or a net operating loss carryover, enter the beneficiary's share of the excess deductions on this line.

(a) Excess Deductions. Excess deductions on termination occur only during the last taxable year of the trust when the total deductions (other than the deductions allowed under section 642(b), relating to the exemption amount, or section 642(c), relating to charitable contributions) are greater than the gross income during that tax year. Figure the deductions on an attached sheet.

Only the beneficiary of a trust that succeeds to its property is allowed to deduct that entity's excess deductions on termination. A beneficiary who does not have enough income in that year to absorb the entire deduction may not carry the balance over to any succeeding year. An individual beneficiary must be able to itemize deductions in order to claim the excess deductions in determining taxable income.

(b) Net Operating Loss (NOL) Carryover. Generally, a deduction based upon a NOL carryover is not available to a beneficiary as excess deductions and should be entered on line 11. However, if the last tax year of the trust is also the last year in which a NOL carryover may be taken, then the NOL carryover is considered an excess deduction on the termination of the entity to the extent it is not absorbed by the trust during its final tax year. For more information, see Publication 559, section 642(h), and the related regulations.

Line 10. Foreign taxes.—List on a separate sheet the beneficiary's share of the applicable foreign taxes paid or accrued and the various foreign source figures needed for the beneficiary's foreign tax credit. See Publication 559; **Publication 514,** Foreign Tax Credit for Individuals; and section 642(a) and related regulations for special rules about foreign taxes.

Line 11. Other.—Itemize on line 11 or on a separate sheet the beneficiary's tax information for which there is no other line on Schedule K-1.

This includes the allocable share, if any, of:

- Tax-exempt interest realized by the trust,
- Gross farming and fishing income,
- Credit for backup withholding (section 3406),
- Investment income (section 163(d)),
- Qualified rehabilitation expenditure.

Unused loss carryover.—Upon termination of a simple trust, a beneficiary succeeding to its property is allowed to deduct any amount of unused net operating loss carryover. Enter the unused carryover amount and write "NOL CARRYOVER" to the left of the figure.

Form **1041-T**

Department of the Treasury
Internal Revenue Service

Transmittal of Estimated Taxes Credited to Beneficiaries

Under Code section 643(g)
▶ Attach to Form 1041.

OMB No. 1545-1020

1988

Name of trust

Employer identification number

Name and title of fiduciary

Telephone number (optional)
(   )

Address of fiduciary (number and street)

City, state, and ZIP code

1 Total amount to be allocated. Enter the amount from Form 1041, line 24b . . . . ▶ $

2 Allocation to beneficiaries

(a) No.	(b) Name and address of beneficiary	(c) Beneficiary's identifying number	(d) Amount of estimated tax overpayment credited to beneficiary	(e) Proration percentage
1				%
2				%
3				%
4				%
5				%
6				%
7				%
8				%
9				%
10				%
	Total from additional sheet(s)			
3	Total amounts allocated. (Must equal line 1, above.)			

Please Sign Here

Under penalties of perjury, I declare that I have examined this transmittal, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

▶ Signature of fiduciary or officer representing fiduciary

Date

General Instructions

(Section references are to the Internal Revenue Code.)

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	7 minutes
Learning about the law or the form	5 minutes
Preparing the form	5 minutes
Copying, assembling, and sending the form to IRS	17 minutes

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to either IRS or the Office of Management and Budget at the addresses listed in the instructions for Form 1041.

A. Purpose of Form.—A fiduciary uses Form 1041-T to make a section 643(g) election to allocate the trust's estimated tax overpayment among the trust's beneficiaries.

(Continued on reverse)

B. Who Must File.—Trusts that overpaid their 1988 estimated income tax may make a section 643(g) election. The fiduciary makes the election by: (1) entering an amount on line 24b of Form 1041 in accordance with its instructions; (2) completing and attaching Form 1041-T to Form 1041; and (3) completing line 11a of Schedule K-1 (Form 1041) for each beneficiary to whom an allocation is made.

Note.—*At the time this form went to print, legislation was enacted to allow a fiduciary of an estate to make a section 643(g) election if it overpaid its estimated income tax in the final tax year of the estate. IRS will issue guidance as to how and when the estate's fiduciary makes this election.*

C. When To File.—File Form 1041-T as an attachment to the trust's 1988 Form 1041. Both of these forms must be filed on or before March 6, 1989, for the section 643(g) election to be valid.

Specific Instructions

Line 2.—Column (b)—*Name and address of beneficiary.*—Group the beneficiaries to whom you are allocating estimated tax overpayments into two categories. First, list all of the individual beneficiaries (those who have Social Security Numbers (SSNs)). Second, list all of the other beneficiaries (those who have Employer Identification Numbers (EINs)).

Column (c)—*Beneficiary's identifying number.*—For each beneficiary, enter the SSN (for individuals) or EIN (for all other entities). Failure to enter a valid SSN or EIN may cause a delay in processing and could result in the imposition of penalties on the beneficiary. For those beneficiaries who file a joint return, you can assist the IRS in crediting the proper account by providing the SSN, if known, of the beneficiary's spouse. However, this is an optional entry.

Column (d)—*Amount of estimated tax overpayment credited to beneficiary.*—For each beneficiary, enter the amount you entered on that beneficiary's Schedule K-1 (Form 1041), line 11a.

Column (e)—*Proration percentage.*—For each listed beneficiary, divide the amount shown in column (d) by the amount shown on line 1 and enter the result as a percentage.

Additional Sheets.—If you are allocating an overpayment of estimated taxes to more than 10 beneficiaries, list the additional beneficiaries on an attached sheet that follows the format of line 2. Enter the total from the attached sheet(s) in the space indicated.

Form **1045**

Department of the Treasury
Internal Revenue Service

Application for Tentative Refund

(See instruction D for when to file.)
Do Not Attach to Your Income Tax Return—Mail in a Separate Envelope
▶ For use by taxpayers other than corporations.

OMB No. 1545-0098

1988

Please type or print

Name	**Social security or employer identification number**
Number and street	**Spouse's social security number**
City or town, state, and ZIP code	Telephone no. (optional) ( )

1 This application is filed to carry back:	**(a)** Net operating loss (from page 2, line 21) $	**(b)** Unused general business credit $
2 **(a)** For the year Jan.–Dec. 31, 1988, or other tax year beginning , 1988, ending , 19	**(b) Date filed**	**(c) Service center where filed**

3 If this application is for an unused credit created by another carryback, give year of the first carryback ▶

4 If spouse filed a separate return for a carryback year, indicate year ▶

5 If social security number for carryback year is different from above, enter number and indicate the year(s) ▶

6 If you changed your accounting period, give date permission to change was granted ▶

7 Have you filed a petition in Tax Court for the year or years to which the carryback is to be applied? ☐ Yes ☐ No

8 Does this carryback include a loss or credit from a tax shelter required to be registered? ☐ Yes ☐ No

Computation of Decrease in Tax **Note:** *If no entry in 1(a), skip lines 9 through 15*	3rd preceding tax year ended ▶		2nd preceding tax year ended ▶		1st preceding tax year ended ▶	
	(a) Before carryback	**(b)** After carryback	**(c)** Before carryback	**(d)** After carryback	**(e)** Before carryback	**(f)** After carryback
9 Adjusted gross income from tax return						
10 Net operating loss deduction after carryback (see instructions—attach computation)	▨		▨		▨	
11 Subtract line 10 from line 9						
12 Deductions (see instructions)						
13 Subtract line 12 from line 11						
14 Exemptions						
15 Taxable income (subtract line 14 from line 13)						
16 Income tax						
17 General business credit						
18 Other credits (identify)						
19 Total credits (add lines 17 and 18)						
20 Subtract line 19 from line 16						
21 Recapture of investment credit						
22 Alternative minimum tax						
23 Self-employment tax						
24 Other taxes						
25 Total tax liability (add lines 20 through 24)						
26 Enter amount from line 25, cols. (b), (d), and (f)		▨		▨		▨
27 Decrease in tax (subtract line 26 from line 25)		▨		▨		▨
28 Overpayment of tax due to a claim of right adjustment under section 1341(b)(1)—attach computation						

Under penalties of perjury, I declare that I have examined this application and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete.

(Your signature and date) *(If application is filed jointly, both you and your spouse must sign)* (Spouse's signature and date)

Preparer other than taxpayer (name and address) ▶ Date ▶

For Paperwork Reduction Act Notice, see page 3. Form **1045** (1988)

Schedule A (Form 1045)—Computation of Net Operating Loss

1 Adjusted gross income from 1988 Form 1040, line 32 (estates and trusts, skip lines 1 and 2) 1

2 Deductions (applies to individuals only):

a Enter amount from your 1988 Form 1040, line 34 . . . . 2a

b Multiply $1,950 by the total number of exemptions on your 1988 Form 1040, line 6e 2b

c Add lines 2a and 2b . . . . 2c ( )

3 Combine lines 1 and 2c (estates and trusts, enter your taxable income) 3

Note: *If line 3 is zero or more, do not complete rest of schedule. You do not have a net operating loss.*

Adjustments:

4 Exemptions from line 2b above (estates and trusts, enter exemption from your tax return) 4

5 Enter your nonbusiness capital losses 5

6 Enter your nonbusiness capital gains 6

7 If the amount on line 5 is larger than the amount on line 6, enter difference; otherwise, enter zero 7

8 If the amount on line 6 is larger than the amount on line 5, enter difference; otherwise, enter zero 8

9 Nonbusiness deductions 9

10 Nonbusiness income (other than capital gains) . 10

11 Add lines 8 and 10 11

12 If line 9 is more than line 11, enter difference; otherwise, enter zero 12

13 If line 11 is more than line 9, enter difference (but do not enter more than line 8); otherwise, enter zero. 13

14 Enter your business capital losses 14

15 Enter your business capital gains 15

16 Add lines 13 and 15 16

17 If the amount on line 14 is larger than the amount on line 16, enter difference; otherwise, enter zero 17

18 Add lines 7 and 17, but do not enter more than your capital loss limitation 18

19 Net operating losses from other years 19

20 Add lines 4, 12, 18, and 19 20

21 Combine lines 3 and 20. This is your net operating loss. Enter here and on page 1, line 1a 21

Caution: *If line 21 is zero or more, you do not have a net operating loss.*

Instructions for Schedule A (Form 1045)—Computation of Net Operating Loss

Use and include this schedule for your net operating loss that is available for carryback or carryover.

Line 18.— If you have a net capital loss for 1988, do not include in line 18 your net capital loss not allowed because of the capital loss limitation. For more information, see Regulations section 1.172-3 and **Pub. 536**, Net Operating Losses.

Nonbusiness Income and Deductions are those not connected with a trade or business.

Your standard deduction is a nonbusiness deduction if you do not itemize deductions. Itemized deductions are usually nonbusiness, except for casualty loss deductions and any employee business expenses, such as union dues, uniforms, tools, and educational expenses.

Salaries and wages you received are trade or business income.

Gain or loss on sale or other disposition of real or depreciable property used in your trade or business is business income or loss.

Loss from the sale of accounts receivable, if such accounts arose under the accrual method of accounting in your business, is a business deduction.

Casualty losses and theft losses are considered attributable to a trade or business. This is true even if they involve nonbusiness property.

Your proportionate share of a partnership or an S corporation's income or loss is business income or loss.

Losses on stock in small business corporations that qualify as ordinary losses are business losses.

Loss resulting from the sale or exchange of small business investment company stock that qualifies as an ordinary loss is a loss attributable to your trade or business.

The deductions allowed for payments to a Keogh retirement plan and **Individual Retirement Arrangement** are nonbusiness deductions.

General Instructions

(Section references are to the Internal Revenue Code unless otherwise specified.)

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	34 hrs., 12 min.
Learning about the law or the form	10 hrs.
Preparing the form	31 hrs., 28 min.
Copying, assembling, and sending the form to IRS	5 hrs., 54 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to the **Internal Revenue Service,** Washington, DC 20224, Attention: IRS Reports Clearance Officer, TR:FP; or the **Office of Management and Budget,** Paperwork Reduction Project, Washington, DC 20503.

A. Purpose of Form.—If you are an individual, estate, or trust, use this form to apply for:

- A quick refund of taxes from carryback of a net operating loss or an unused general business credit.
- A quick refund of taxes from an overpayment of tax due to a claim of right adjustment under section 1341(b)(1).

Note: *You may elect to carry over a 1988 net operating loss instead of first carrying it back by attaching a statement to that effect on a return filed on time (including any extensions) for 1988. Once you make such an election, it is irrevocable. The carryover is limited to 15 years, whether or not you first carry it back.*

B. Where To File.—File this form with the Internal Revenue Service Center where you are required to file your 1988 income tax return.

Do not mail Form 1045 with your 1988 income tax return.

C. What To Attach.—Attach **copies** of the following, if applicable, to Form 1045 for the year of the loss or credit:

- If you are an individual, pages 1 and 2 of your 1988 Form 1040, and Schedules A and D.
- All Schedules K-1 you received from a partnership, S corporation, estate, or trust which contribute to the loss or credit carryback.
- A copy of the application for extension of time to file your 1988 income tax return.
- Copies of all **Forms 8271**, Investor Reporting of Tax Shelter Registration Number, attached to your 1988 Form 1040.
- Any other form or schedule from which the carryback results (such as Schedules C or F, or Form 3468).

In addition, attach copies of forms or schedules for items refigured in the carryback years (such as Form 6251 or Form 3468).

All information described above must be attached to your application, if applicable, or your Form 1045 will not be processed. In addition, all questions on page 1 must be answered.

D. When To File.—File within 1 year after the end of the year in which the net operating loss, unused credit, or claim of right adjustment arose, but only on or after the date you file your 1988 return.

When a net operating loss or credit carryback eliminates or reduces another credit in an earlier year, you may be able to carry back the released credit 3 more years. See the credit forms for the carryback years for additional information. Also see section 39 and the regulations under section 6411.

Since the unused credit created affects the taxes of a year or years before the 3 years preceding the 1988 tax year, use a second Form 1045 for the earlier year(s). Also, file the second application within 1 year after the 1988 tax year. To expedite processing, file the two Forms 1045 together

E. Allowance of Adjustment.—The IRS will act on this application within 90 days from the later of:

- The date you file the complete application; or
- The last day of the month in which the due date falls (including any extension of time granted) for filing the return for the 1988 tax year. (For an overpayment of tax under section 1341(b)(1), 90 days from the date of the overpayment.)

In certain cases involving abusive tax shelter promotions, the Internal Revenue Service, before processing and before refunds are paid, will reduce refunds of investors when appropriate, and will offset deficiencies assessed under provisions of section 6213(b)(3) against scheduled refunds resulting from tentative carryback adjustments under section 6411(b). See Revenue Procedure 84-84 and Revenue Ruling 84-175.

The processing of the Form 1045 and the payment of the refund requested does not mean the IRS has accepted the items carried back to previous years as being correct. If it is later determined by an examination of the tax return for the year of the carryback that the claimed deductions or credits are due to an overvaluation of assets or negligence, penalties may be assessed against you. They are:

- Section 6621(c); 120% of the underpayment rate on tax motivated transactions.
- Section 6653(a), negligent underpayment of taxes; 5% penalty on the underpayment.
- Section 6659; 10%, 20%, or 30% penalty on overvaluation of assets.
- Section 6661; 25% penalty on substantial understatement of tax liability.

In addition to these penalties, any tax deficiency will also generate interest compounded daily.

Additional Information.—We may need to contact you (or your authorized representative if you have one) for more information so we can act on your application. If you want to designate a representative for us to contact (for example, your accountant or tax return preparer), please attach a copy of your authorization to Form 1045. You may use for this purpose **Form 2848**, Power of Attorney and Declaration of Representative, or **Form 2848-D**, Tax Information Authorization and Declaration of Representative.

F. Disallowance of Application.— This application for a tentative carryback adjustment is not a claim for credit or refund. Any application may be disallowed if it has material omissions or math errors that cannot be corrected within the 90-day period. If it is disallowed in whole or in part, no suit may be brought in any court for the recovery of that tax. But you may file a regular claim for credit or refund before the limitation period expires, as explained in instruction H.

G. Excess Allowances.—Any amount applied, credited, or refunded based on this application that the IRS later determines to be excessive may be billed as if it were due to a math or clerical error on the return.

H. Form 1040X (or Other Amended Return).—If you are an individual, you can get a refund by filing Form 1040X, instead of Form 1045. An estate or trust may file an amended return. Generally, you must file Form 1040X (or amended return) within 3 years after the due date of the return for the 1988 tax year.

The procedures governing Form 1040X differ from those governing Form 1045. The IRS is not required to act on your Form 1040X within 90 days. However, if the IRS does not act on it within 6 months from the date you filed it, you may file suit in court. But you must file suit no later than 2 years after the IRS disallows your claim on Form 1040X.

If you use Form 1040X or an amended return, attach a computation of your net operating loss on Schedule A (Form 1045). Complete a separate Form 1040X or amended return for each year you request an adjustment.

Line-by-Line Instructions

Enter in columns (a), (c), and (e) the amounts for the applicable carryback year as shown on your original or amended return. If the return was examined, enter the amounts determined as a result of the examination.

Line 1(a)—Net operating loss carryback.—Figure your net operating loss on Schedule A (Form 1045).

Carry a net operating loss back to the 3rd tax year before the loss. Any loss not used in the 3rd year is carried to the 2nd, and then the 1st preceding year. Carry a loss not applied in the 3 preceding years forward up to 15 years. Special rules apply for any part of a net operating loss related to a foreign expropriation loss, a product liability loss, and certain other losses. See section 172(b) and related regulations for details.

If you filed a joint return (or a separate return) for some, but not all of the tax years involved in figuring the net operating loss carryback, special rules apply in computing the net operating loss deduction. See **Pub. 536**, Net Operating Losses. Attach a computation showing how you figured the carryback.

Line 1(b)—Carryback of unused general business credit.—If you claim a tentative refund based on the carryback of this credit, attach a detailed computation showing how you figured the credit carryback, and a recomputation of the credit after you apply the carryback. Make the recomputation on the appropriate credit form, or on an attachment that follows the format of the form, for the tax year of the tentative allowance.

If you filed a joint return (or separate return) for some, but not all of the tax years involved in figuring the unused credit carryback, special rules apply in computing the carryback. Get Pub. **572**, General Business Credit. Attach a computation showing how you figured the carryback.

Line 2(a).—If the year of the loss, unused credit, or overpayment under section 1341(b)(1) is other than the calendar year 1988, please enter the required information.

Line 10—Computation of net operating loss when it is not fully absorbed in preceding tax years.—The amount of a net operating loss you may carry to the next year, after applying it to an earlier year or years, is the excess, if any, of the net operating loss carryback over the taxable income of those earlier years, figured with the following modifications:

(1) Your deduction for the excess of capital losses over capital gains is not allowed.

(2) You are not permitted the 60% capital gain deduction.

(3) Determine your taxable income for the earlier tax year(s) without taking into account the net operating loss carryback from the 1988 tax year or any later tax year. Net operating losses, otherwise allowable as carrybacks or carryovers, occurring in tax years before the 1988 tax year, are taken into account in figuring the taxable income for the earlier tax year.

(4) You may not claim any personal exemptions.

(5) Any deductions claimed, except charitable contributions, that are based on, or limited to, a percentage of adjusted gross income (such as medical expenses) must be refigured on the basis of the adjusted gross income after you apply *(1)*, *(2)*, and *(3)* above. Determine the deduction for charitable contributions using the same adjustments except that you do not take into account any net operating losses you carry back.

(6) Your zero bracket amount shown below is allowed as a deduction.

	1985	1986
Married filing joint return or qualifying widow(er) . . .	$3,540	$3,670
Single or head of household .	$2,390	$2,480
Married filing separately . .	$1,770	$1,835

The taxable income as modified is to be considered not less than zero.

Line 12—Deductions.

Individuals.—Enter the amount shown on your Form 1040, line 34a or 34e for 1985; 34a or 34d for 1986; 33a or 33b for 1987. If you used Form 1040A, enter the amount from line 16d for 1985; 16c for 1986; 14d for 1987. If you used Form 1040EZ, enter the amount from line 4 for 1986 and 1985.

Line 13.—If you used the worksheet in the Form 1040 instructions under "You Must Itemize Deductions," for 1985 or 1986 enter the amount from line 5 of the worksheet on Form 1045, line 13.

Line 16—Income tax.—For columns (b), (d), and (f), refigure your tax after taking the net operating loss carryback into account. Attach a detailed computation. The tax form and instructions for the applicable year will help you make this computation. Include on this line any tax from Form 4970, Form 4972, and Form 5544.

If you qualified for income averaging for a particular year, you may later become disqualified or have a reduced benefit because of a net operating loss carryback. A net operating loss carryback may also make you eligible for income averaging for a year when you previously did not qualify.

Computation of tax when the net operating loss is fully absorbed in the earliest preceding tax year.—In refiguring your tax for the year to which the net operating loss is carried and fully absorbed, determine the deduction for charitable contributions without regard to any net operating loss carryback. Any other deductions claimed based on, or limited to, a percentage of your adjusted gross income (such as medical expenses) must be refigured on the basis of your adjusted gross income, determined after you apply the net operating loss carryback. Also, any credits based on, or limited by, the tax must be refigured on the tax as determined after you apply the net operating loss carryback.

See Pub. 536 for more information and examples.

Line 17—General business credit.—Enter any general business credit. Identify the applicable credits.

Line 18—Other credits.—See your tax return for the carryback year for any additional credits (such as credit for the elderly, partial credit for political contributions, residential energy credits, etc.) that will apply in that year. If there is an entry on this line, identify the credit(s) claimed.

Line 22—Alternative minimum tax.—A carryback of an unused credit may increase your alternative minimum tax or first cause you to be liable for it. A carryback of a net operating loss may reduce your alternative minimum tax. Use Form 6251 to figure this tax, and attach a copy if there is any change to your alternative minimum tax liability.

Line 23—Self-employment tax.—Do not adjust the self-employment tax because of any carryback.

Line 24—Other taxes.—See your tax return for the carryback year for any add-on taxes not previously listed, such as tax on an IRA, that will apply in that year. If there is an entry on this line, identify the tax(es) that apply.

Line 28—Overpayment of tax under section 1341(b)(1).—If you apply for a tentative refund based on an overpayment of tax under section 1341(b)(1), enter it on this line. Also attach a computation that shows the information required in Regulations section 5.6411-1(d).

Form **1116**

Department of the Treasury
Internal Revenue Service

Computation of Foreign Tax Credit

Individual, Fiduciary, or Nonresident Alien Individual

▶ Attach to Form 1040, 1040NR, 1041, or 990-T.

▶ See separate Instructions.

OMB No. 1545-0121

1988

Attachment Sequence No. 21

Name

Identifying number as shown on page 1 of your tax return

*Use a separate Form 1116 for each type of income. Check only **one** box. This form is being completed for credit for taxes on:*

☐ Passive income
☐ High withholding tax interest
☐ Financial services income
☐ Shipping income
☐ Dividends from an IC-DISC or former DISC
☐ Distributions from a foreign sales corporation (FSC) or former FSC
☐ General limitation income—all other income from sources outside the United States (including income from sources within U.S. possessions)

Resident of (name of country) ▶

Note: *If you paid taxes to one foreign country, use column A in Part I and line A in Part II. If you paid taxes to **more than one** foreign country, use a separate column and line for each country.*

Part I Taxable Income From Sources Outside the United States

	Foreign Country or U.S. Possession				Total (Add Cols. A, B, and C)
	A	B	C		
Write the name of the foreign country or U.S. possession ▶				▨	
1 Gross income from sources within country shown above and of the type checked above (see instructions):				1	
2 Applicable deductions and losses (see instructions):	▨	▨	▨	▨	
a Expenses directly allocable to the income on line 1 (attach schedule)				▨	
b Pro rata share of other deductions not directly allocable:	▨	▨	▨	▨	
(i) Itemized deductions or standard deduction				▨	
(ii) Other deductions (attach schedule)				▨	
(iii) Add lines 2b(i) and 2b(ii)				▨	
(iv) Total foreign source income (see instructions)				▨	
(v) Gross income from all sources (see instructions)				▨	
(vi) Divide line 2b(iv) by line 2b(v)				▨	
(vii) Multiply line 2b(iii) by line 2b(vi)				▨	
c Pro rata share of interest expense (see instructions)				▨	
d Losses from foreign sources				▨	
e Add lines 2a, 2b(vii), 2c, and 2d				2e	

3 Subtract line 2e from line 1. Enter the result here and in Part III, line 6 ▶ 3

Part II Foreign Taxes Paid or Accrued

Country	1. Credit is claimed for taxes **(you must check one)**: ☐ Paid; or ☐ Accrued	2. Foreign taxes paid or accrued								
		In foreign currency				In U.S. dollars				
		Taxes withheld at source on:			(d) Other foreign taxes paid or accrued	Taxes withheld at source on:			(h) Other foreign taxes paid or accrued	(i) Total foreign taxes paid or accrued (add cols. (e), (f), (g), and (h))
	Date paid or accrued	(a) Dividends	(b) Rents and royalties	(c) Interest		(e) Dividends	(f) Rents and royalties	(g) Interest		
A										
B										
C										

3 Add lines A through C, column (i). Enter the total here and on Part III, line 1 ▶

For Paperwork Reduction Act Notice, see page 1 of separate Instructions.

Form **1116** (1988)

Part III Computation of Foreign Tax Credit

Check if you are claiming a credit for taxes paid to the Virgin Islands under section 932(b) . . . . ▶ ☐

1	Enter amount from Part II, line 3. (This is the total foreign taxes paid or accrued.)	1			
2	Carryback or carryover (attach detailed computation)	2			
3	Add lines 1 and 2	3			
4	Reduction in foreign taxes (see instructions)	4			
5	Subtract line 4 from line 3. (This is the total amount of foreign taxes available for credit.)			5	
6	Enter amount from Part I, line 3. This is your taxable income or (loss) from sources outside the United States before adjustments	6			
7	Adjustments to line 6 (see instructions)	7			
8	Combine the amounts on line 6 and line 7. This is your net foreign source taxable income. (If this is a loss, you have no foreign tax credit for the type of income you checked on page 1. Skip lines 9 through 13.)			8	
9	**Individuals:** Enter amount from Form 1040, line 35, or from Form 1040NR, line 34. **Estates and trusts:** Enter on this line your taxable income without the deduction for your exemption	9			
10	Divide line 8 by line 9. (If line 8 is more than line 9, enter the figure "1.")			10	
11	**Individuals:** Enter amount from Form 1040, line 40, **less** any amounts on Form 1040, lines 41 and 42. Enter amount from Form 1040NR, line 39, **less** any amount on Form 1040NR, line 40. **Estates and trusts:** Enter amount from Form 1041, Schedule G, line 1c, or Form 990-T, line 8			11	
12	Multiply line 11 by line 10. (Maximum amount of credit.)			12	
13	Enter the amount from line 5 or line 12, whichever is smaller. (If this is the only Form 1116 you are completing, skip lines 1 through 7 in Part IV and enter this amount on line 8, Part IV. Otherwise, complete the appropriate lines in Part IV.) ▶			13	

Part IV Summary of Credits From Separate Parts III (See Instructions.)

1	Credit for taxes on passive income	1			
2	Credit for taxes on high withholding tax interest	2			
3	Credit for taxes on financial services income	3			
4	Credit for taxes on shipping income	4			
5	Credit for taxes on dividends from an IC-DISC or former DISC	5			
6	Credit for taxes on distributions from a FSC or former FSC	6			
7	Credit for taxes on general limitation income (all other income from sources outside the U.S.)	7			
8	Add lines 1 through 7			8	
9	Reduction of credit for international boycott operations (see "Reduction of Credit for International Boycott Operations" in instructions for Part III)			9	
10	Subtract line 9 from line 8. This is your foreign tax credit. Enter here and on Form 1040, line 43; Form 1040NR, line 41; Form 1041, Schedule G, line 2a; or Form 990-T, line 9a ▶			10	

1988

Department of the Treasury
Internal Revenue Service

Instructions for Form 1116

Computation of Foreign Tax Credit

Individual, Fiduciary, or Nonresident Alien Individual

(Section references are to the Internal Revenue Code.)

General Instructions

Paperwork Reduction Act Notice.— We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	2 hrs., 44 min.
Learning about the law or the form	40 min.
Preparing the form	1 hr., 11 min.
Copying, assembling, and sending the form to IRS	35 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to either the IRS or the Office of Management and Budget at the addresses listed in the instructions of the tax return with which this form is filed.

Items To Note

- There are special rules for converting foreign income and taxes into U.S. dollars if you have a qualified business unit. You may have a qualified business unit if you own and operate a business or are otherwise self-employed in a foreign country. See **Pub. 514,** Foreign Tax Credit for Individuals, for more details.
- There are new rules for figuring how a foreign tax redetermination affects your foreign tax credit and for reporting the redetermination to IRS. See **Method of Reporting** on page 2.
- You are required to use a different method to allocate interest expense to U.S. or foreign source income than the method you use to allocate your other deductions. See the instructions for Part I, line 2c.
- You may not take a credit for taxes paid or accrued to South Africa in 1988. See **Foreign Taxes for Which You May Not Take a Credit.**
- You may take a credit for taxes paid to Panama after March 24, 1988 only if the taxes were paid to the order of the Government of the Republic of Panama Account Number 2, in the Federal Reserve Bank of New York. See Notice 88-47, 1988-16, I.R.B. 27, for more information.

Who Should Use This Form

Use Form 1116 to figure your foreign tax credit if you are an individual, estate, or trust, and you paid or accrued foreign taxes for tax year 1988. See "Foreign Taxes For Which You May Take a Credit" to determine if the taxes you paid or accrued qualify for the credit.

Use a separate Form 1116 (Parts I, II, and III) to figure the credit for foreign taxes paid or accrued for each type of income specified above Part I of the form. If for the box you check you have income from or have paid taxes to more than one foreign country or U.S. possession, use a separate column in Part I and a separate line in Part II for each country. If you paid taxes to more than three countries, attach additional sheets following the format of Parts I and II.

Additional Information.—Pub. 514 contains a detailed explanation of how to figure the foreign tax credit. You can get it from an IRS Forms Distribution Center.

Who May Not Take the Credit

If you are a nonresident alien you generally cannot take the credit. However, you may be able to take the credit if:

(1) You are a resident of Puerto Rico during your entire tax year; or

(2) You are a nonresident alien who pays or accrues tax to a foreign country or U.S. possession on income from foreign sources that is effectively connected with a trade or business in the United States. However, if you have to pay tax to a foreign country or U.S. possession on income from U.S. sources only because you are a citizen or a resident of that country or U.S. possession, that tax may not be used in figuring the amount of your credit.

For more information, see **Pub. 519,** U.S. Tax Guide for Aliens.

Foreign Taxes for Which You May Take a Credit

You may take a credit for income, war profits, and excess profits taxes paid or accrued during the tax year to any foreign country or U.S. possession or any political subdivision, agency, or instrumentality of the country or possession. (Examples of political subdivisions are a city, state, or province.) For purposes of this credit, U.S. possessions include Puerto Rico, Guam, the Northern Mariana Islands, American Samoa, and the Virgin Islands.

These taxes include taxes that are paid or accrued in lieu of an income, war profits, or excess profits tax that is otherwise generally imposed.

U.S. citizens who live in certain countries may be able to take a foreign tax credit against their U.S. tax liability for the foreign tax imposed on certain items of income from the United States. See Pub. 514 for more information.

Note: *If you are claiming a credit for taxes paid to the Virgin Islands, use a separate Form 1116 for the computation and check the box above line 1 of Part III of the form. Do not check the "type of income" boxes above Part I. Do not complete Parts I and II of Form 1116. Instead, complete* ***Form 8689,*** *Allocation of Individual Income Tax to the Virgin Islands, to figure the amount of U.S. tax allocable to the Virgin Islands. Enter the tax allocable to the Virgin Islands from Form 8689 on line 13 of Part III, Form 1116. If you are claiming a credit for Virgin Islands taxes only, also enter the amount from line 13 above on line 10 of Form 1116, Part IV. If you are claiming credit for taxes paid to other foreign countries in addition to your Virgin Islands credit, include the Virgin Islands credit in the total on line 10 of Part IV on the Form 1116 you use to summarize your credits. Write "V.I. tax" and the amount to the left of the entry space for line 10. Do not consider your Virgin Islands income as foreign source income for purposes of computing the credit for your other foreign taxes.*

Foreign Taxes for Which You May Not Take a Credit

- Taxes paid to the Virgin Islands if you are a bona fide resident of the Virgin Islands on the last day of your tax year.
- Taxes attributable to excluded income from sources in American Samoa, Guam, or the Northern Mariana Islands, if you are a bona fide resident of American Samoa. For more information, get **Pub. 570,** Tax Guide for Individuals in U.S. Possessions.
- Taxes imposed and paid on income earned from activities conducted after 1986 in certain foreign countries. These countries include those designated by the Secretary of State as countries that repeatedly provide support for acts of international terrorism, countries with which the United States does not have diplomatic relations, or countries whose governments are not recognized by the United States. Pub. 514 contains a list of these countries. In addition, for tax years beginning after 1987, you cannot claim a credit for taxes paid or accrued on income from activities conducted in South Africa. See section 901(j)(2) for more information.

Other foreign taxes for which you may not take a credit are:

- Taxes paid to a foreign country that would be refunded to you if you made a refund claim.
- Certain payments made to a foreign country for the purchase or sale of oil or gas if you do not have an economic interest in the oil or gas to which these payments apply, and the price paid or received is different than the fair market value of the oil or gas.
- Foreign taxes paid or accrued on foreign oil-related income to the extent the tax imposed by the foreign country on the oil-related income is materially greater than the tax generally imposed by that country on other kinds of income. However, the amount of tax not allowed as a credit under this rule is allowed as a business expense deduction.
- Payments of foreign tax which are returned to you in the form of a subsidy (such as a refund or credit).
- Foreign taxes paid or accrued on distributions attributable to the foreign trade income (other than nonexempt foreign trade income determined without regard to administrative pricing rules) of a foreign sales corporation (FSC).

You may **not** take a credit for any interest or penalties you must pay.

Credit or Deduction

Instead of taking the credit on Form 1116, you may choose to deduct foreign income taxes as a deduction (Schedule A (Form 1040) for Form 1040 filers). If you take the credit for any allowable foreign taxes, you may not take any part of that year's tax as a deduction in the year you take the credit or in any later year. You may take a deduction for foreign taxes not allowed as a credit because of boycott provisions. You may also take a deduction for taxes paid to certain foreign countries for which a credit has been denied under section 901(j)(2). You may not take a deduction for taxes paid to the Virgin Islands.

If you want to change your election to take a deduction instead of a credit, or a credit instead of a deduction, you must do so within a special 10-year limitation period. See Pub. 514.

Method of Reporting

Report all amounts on the form in U.S. dollars except where specified otherwise in Part II, Foreign Taxes Paid or Accrued. If you have to convert from foreign currency, attach a detailed explanation of how you figured the conversion rate.

If you take a credit for taxes paid, the conversion rate is the rate of exchange in effect on the day you paid the foreign taxes. If you choose to take the credit for accrued taxes, the conversion rate is the rate of exchange in effect on the last day of your tax year. However, if a different rate of exchange is in effect when the tax is actually paid, use the rate in effect on the day you pay the tax.

If you receive a refund of foreign taxes paid, the conversion rate is the rate in effect at the time you paid the taxes rather than the rate in effect at the time you receive the refund.

Foreign Tax Redeterminations. A foreign tax redetermination is any change in your foreign tax liability that affects your U.S. foreign tax credit. Some examples are:

(a) refunds of foreign taxes you paid;

(b) a change in the dollar amount of your foreign tax credit because of differences in the exchange rate at the time the foreign taxes were accrued and the time they were paid.

If, after you file your return, your foreign tax is redetermined, you must file an amended return on **Form 1040X,** Amended U.S. Individual Income Tax Return, to notify the IRS so that your U.S. tax for the year or years affected can be redetermined. If your foreign tax was lowered because of the redetermination, you must file Form 1040X within 180 days of the foreign tax redetermination. A special 10-year limitation period applies if your foreign tax was increased by the redetermination. See Pub. 514 for details.

Exception. If the change in your foreign tax liability occurred solely because of changes in the exchange rate (as in (b) above), you do not need to file Form 1040X if the difference between the dollar value of the accrued foreign tax and the dollar value of the foreign tax you actually paid was less than the smaller of:

- $10,000, or
- 2% of the foreign tax initially accrued.

If you meet this exception you may adjust your U.S. tax for the year of the foreign tax redetermination instead of filing Form 1040X.

Note: *If you do not notify the IRS of a foreign tax refund, or change in the dollar amount of foreign taxes paid or accrued, you may have to pay a penalty. See sections 905(c) and 6689.*

Line-by-Line Instructions

Part I.—Taxable Income From Sources Outside the United States

Determining the Source of Your Income.—Generally, you may only enter income from sources outside the U.S. on line 1. Income from sources outside the U. S includes:

- Compensation for services performed outside the U.S.
- Interest income from a payor located outside the U.S.
- Dividends from a corporation that is incorporated outside the U.S.
- Gain on the sale of nondepreciable personal property you sold while maintaining a tax home outside the U.S. However, this gain is only considered to be from sources outside the U.S. if you paid a tax of at least 10% of the gain to a foreign country.

Special rules apply in determining the source of income from the following:

- Sale of inventory
- Sale of depreciable property used in a trade or business
- Sale of intangible property such as a patent, copyright, or trademark
- Ocean activities
- Transportation services that begin or end in the U.S. or a U.S. possession

See Pub. 514 for more information on these rules.

Part of the following types of income derived from a U.S.-owned foreign corporation that has income from U.S. sources may be required to be treated as U.S. source income.

- Foreign personal holding company income included in gross income.
- Subpart F income included in gross income.
- Interest.
- Dividends.

Line 1.—Types of Income From Sources Outside the United States. A separate foreign tax credit limitation must be computed for each category of income described in section 904 and listed above Part I on Form 1116. For each category, use a separate Form 1116 to compute the limitation. On each Form 1116, include only income which corresponds to the separate category of income of the box checked at the top of the form. Include any income in that category that is from sources within the country entered above line 1 that is taxable by the United States whether or not it is taxable by that country. Do not include any earned income excluded on **Form 2555,** Foreign Earned Income.

Example. If you received dividends (passive income) and wages (general limitation income) from a foreign source, you must complete two Forms 1116. On one Form 1116, enter the dividends on line 1 and complete the rest of the form. On the other Form 1116, enter wages not excluded on Form 2555 on line 1 and complete the rest of the form.

See the instructions for Part IV for information on summarizing the separate credits.

The most common separate categories and the income generally contained in each are:

Passive Income. Passive income generally includes dividends, interest, royalties, rents, and annuities. It also includes gain from the sale of non-income-producing investment property and gains from commodities transactions (except hedging transactions and active business gains or losses of producers, processors, merchants, or handlers of commodities). Passive income does not include gain from the sale of inventory or property held primarily for sale to customers in the ordinary course of your trade or business. Passive income also does not include foreign oil and gas extraction income, export-financing interest, active business rents and royalties from unrelated persons, or high-taxed income (see High-Taxed Income).

High Withholding Tax Interest. In general, High Withholding tax interest is foreign interest that is subject to a foreign withholding or gross-basis tax of 5% or more (section 904(d)(2)(B)). Excess credits generated by the high withholding tax interest limitation may not be carried back from 1987 or 1988 to a prior year.

Financial Services Income. Financial services income generally includes income derived by a financial services entity from the active conduct of a banking, financing, insurance, or similar business. An entity is a financial services entity if it is predominantly engaged in the trade or business of banking, insurance, financing, or a similar business. A financial services entity includes passive income and certain incidental income in the financial services income category. If you qualified as a financial services entity because you treated certain amounts as active financing income that are not listed in Regulations section 1.904-4 (e)(2)(i)(A) through (X), but that are described as "similar" items in Regulations section 1.904-4 (e)(2)(i)(Y), you must attach a statement to Form 1116 showing the types and amount of the similar items.

Shipping Income. Shipping income generally includes income that is derived from, or in connection with the use (or hiring or leasing for use) of any aircraft or vessel in foreign commerce. It also includes income derived from space and ocean activities. Income that is both shipping income and financial services income is treated as financial services income.

General Limitation Income. Any income from sources outside the U.S. that is not passive income, high withholding tax interest, financial services income, shipping income, a dividend from an IC-DISC or former DISC, or a distribution from a FSC is general limitation income. Common examples of general limitation income are wages, salary, and overseas allowances of an individual as an employee. Other examples include income earned in the active conduct of a trade or business that does not fall into one of the other separate categories, and gains from the sale of inventory or depreciable property used in a trade or business that do not fall into one of the other separate categories.

Look-Through Rules. Certain income received or accrued by you, as a U.S. shareholder in a controlled foreign corporation (CFC), is treated as income in a separate limitation category. Generally, Subpart F inclusions, dividends, interest, rents, and royalties from a CFC are treated as separate limitation income to the extent attributable to separate limitation income of the CFC.

For more information, see Regulations section 1.904-5.

Income from a Partnership. Certain income from partnerships will be characterized under the look-through rules. However, if a partner has a less than 10% interest (by value) in a partnership, income from the partnership is generally treated as passive income. See Regulations section 1.904-5(h) for further information.

Capital Gains. Capital gains not related to the active conduct of a trade or business are generally passive limitation income. (See section 904 for more information.) Include on Form 1116 any gain from the sale or exchange of capital assets (including gains treated as capital gains under section 1231) only to the extent of foreign source capital gain net income. (This is either capital gain net income from sources outside the United States or from all sources, whichever is less.) "Capital gain net income" is the amount of gains over losses from the sale or exchange of capital assets.

High-Taxed Income. Passive income may, in some cases, be placed in the general limitation category. Passive income may qualify as general limitation income if the foreign taxes paid on the income (after allocation of expenses) exceed the highest U.S. tax which can be imposed on the income.

For more information on the separate categories of income, see section 904 and Regulations sections 1.904-4 and 1.904-5.

Line 2.—Allocating Deductions. You must reduce your foreign income on line 1, Part I, by entering on line 2:

- any deductions you are taking that directly relate to that foreign income, AND
- a ratable share of your other deductions which do not directly relate to either your foreign income on line 1 or your U.S. source income.

Do not include deductions and losses related to exempt or excluded income such as foreign earned income excluded on Form 2555.

Special rules apply to the allocation of research and experimental expenditures. See Regulations section 1. 861-8(e)(3).

Line 2a. Enter on line 2a all deductions that relate directly to the gross income from foreign sources shown on line 1. For example, if you are an employee reporting foreign earned income on this Form 1116, line 2a may include deductions such as expenses incurred to move to a new principal place of work outside the United States or supplies you bought for your job outside the United States.

Do not include any interest expense on line 2a. See line 2c for special rules for interest expense.

Lines 2(b)(i) and 2(b)(ii). Some deductions do not directly relate to either your foreign income shown on line 1 or your U.S. source income. Enter on line 2(b)(i) and 2(b)(ii) any deductions (other than interest required to be shown on line 2c below) which:

- are not shown on line 2a AND
- are not directly related to your U.S. income.

Note: *If you do not itemize deductions, enter your standard deduction on line 2(b)(i) and enter any other deductions which do not relate to any specific type of income on line 2b(ii).*

Lines 2b(iv) and 2b(v). Enter on line 2b(iv) your total foreign income from the category you checked at the top of this Form 1116. Enter on line 2b(v) your gross income from ALL sources, both U.S. and foreign. For this computation, both foreign source income for line 2b(iv) and gross income from all sources for line 2b(v) includes:

- the income of a nonresident alien that is not effectively connected with a trade or business in the U.S.; or
- foreign earned income excluded on Form 2555.

Line 2c. *Qualified residence interest and personal interest.* You must apportion this interest using a gross income method. To figure the amount of your qualified residence and personal interest that relates to your foreign income, multiply your deductible qualified residence interest and personal interest by a fraction. The numerator of the fraction is your total foreign source income from the category you checked at the top of this Form 1116 (excluding income that is exempt under section 911). The denominator is total income from all sources (excluding income that is exempt under section 911). Figure the amount of interest to be apportioned to your foreign income on line 1 using the gross income method (as described above) and include this amount on line 2c.

Investment interest, interest incurred in a trade or business, and passive activity interest. Each of these types of interest is apportioned separately using an "asset method."

Example: You have investment interest expense of $2,000. Your assets consist of stock generating U.S. source income (adjusted basis, $40,000) and stock generating foreign source income (adjusted basis, $60,000). 40 per cent ($40,000/$100,000) or $800 of your investment interest is apportioned to U.S. source income and 60 per cent ($60,000/$100,000) or $1200 is apportioned to foreign source income. In this example, the amount to be entered on line 2c is the $1200 apportioned to foreign source income.

Figure the amount of interest to be apportioned to the income on line 1 on the basis of assets (as described above) and include that amount on line 2c.

Note: *If your foreign income (including income excluded on Form 2555) does not exceed $5,000 you may allocate all of your interest expense to U.S. source income.*

Part II.—Foreign Taxes Paid or Accrued

You may take the credit in the tax year you paid or accrued the taxes, depending upon your method of accounting. If you report on the cash basis, you may choose to take the credit for accrued taxes. Do this by checking the "accrued box" in Part II of Form 1116. Once you choose to do this, however, you must credit foreign taxes in the year they accrue on all future returns.

Enter in Part II the amount of foreign taxes which relate to the category of income checked above Part I. Taxes are related to the income if the income is included in the base upon which the tax is imposed. If the foreign tax you paid or accrued relates to more than one category of income, you must apportion the tax among the categories. The apportionment is based on the ratio of net foreign taxable income in each category to the net income subject to the foreign tax. See Pub. 514 for an example.

If you take a credit for tax accrued but not paid, IRS may have you send a bond on **Form 1117,** Income Tax Surety Bond, before the credit is allowed.

Note: *If you are taking a credit for additional taxes paid or accrued as the result of an audit by the foreign taxing authority, attach a statement to Form 1116 identifying these taxes.*

Part III.—Computation of Foreign Tax Credit

Line 2.—You may carry back 2 years and then forward 5 years the taxes you paid or accrued to any foreign country or U.S. possession (reduced as described below) on income in a separate category that are more than the limitation. First, apply the excess to the earliest of the 7 years to which it may be carried. Then apply it to the next earliest year, and so on. The 7-year carryback and carryover period may not be extended even if you are unable to take a credit in one of the intervening years.

If you did not take a credit in a tax year to which the excess is carried, the excess is considered used in that year in the same way as though you had claimed a credit.

Carryovers of taxes on income subject to the general limitation from tax years before 1987 are generally treated as taxes paid or accrued for purposes of the general limitation income category. However, taxes from tax years before 1987 which were unused by reason of the general limitation may be treated as paid or accrued for purposes of the financial services income, high withholding tax interest, or shipping income limitation category in years after 1986 if the taxpayer establishes that these taxes were in fact paid or accrued with respect to that type of income. See Regulations section 1.904-7 for more information. Carryovers of taxes relating to the prior separate interest limitation are treated as taxes paid or accrued for purposes of the passive income limitation.

Excess foreign taxes from tax years beginning after 1986 may be carried back to a year before 1987 only to the extent that they could have been carried back if the taxpayer had used the U.S. tax rate in effect on October 21, 1986. Amounts carried back under this rule are treated as related to the general limitation category.

Special rules apply to the carryback and carryover of foreign taxes paid or accrued on foreign oil-related income. See sections 907(e) and (f).

File Form 1040X or an amended return, and a revised Form 1116 for each earlier tax year to which you are carrying back the excess foreign tax credit.

Line 4.—You may have to reduce the foreign taxes you paid or accrued by the following items:

- *Taxes on Income Excluded on Form 2555.*—Reduce taxes paid or accrued by the taxes allocable to foreign earned income excluded on Form 2555. If only part of your income is excluded, you must reduce the taxes paid or accrued by the amount allocable to the excluded income. To find the amount allocable to the excluded income, multiply the foreign taxes paid or accrued on foreign earned income received or accrued during the tax year by a fraction. The numerator of the fraction is the foreign earned income excluded for the tax year less otherwise deductible expenses allocable to that income. The denominator is foreign earned income received or accrued during the tax year less deductible expenses allocable to that income. The comprehensive example in Pub. 514 shows how to figure the allocation.

If the foreign law charges tax on foreign earned income and some other income (for example, earned income from U.S. sources or a type of income not subject to U.S. tax) and the taxes on the other income cannot be segregated, the denominator is the total amount of income subject to foreign tax less deductible expenses allocable to that income.

- *Taxes on Income From Puerto Rico Which Is Exempt From U.S. Tax.*—This reduction applies if you have income from Puerto Rican sources, such as U.S. Government wages, that is taxable on your U.S. income tax return, and you also have income from Puerto Rican sources that is not taxable on your U.S. tax return. You must, in figuring the credit, reduce your foreign taxes paid or accrued by the taxes allocable to the exempt income. See Pub. 570 for an example.

- *Taxes on Foreign Oil and Gas Extraction Income.*—Reduce taxes paid or accrued on foreign oil and gas extraction income as provided by section 907(a).

See section 907(c)(4) for the rules regarding the recharacterization of foreign oil and gas extraction losses.

- *Taxes on Foreign Mineral Income.*—Reduce taxes paid or accrued on mineral income from a foreign country or U.S. possession if you got a deduction for percentage depletion under section 613 for any part of the mineral income.

- *Reduction for Failure To File Form 5471.*—U.S. shareholders who control a foreign corporation must file **Form 5471**, Information Return With Respect to a Foreign Corporation. If by the due date of your income tax return you do not file Form 5471, you must reduce by 10% all foreign taxes that you otherwise may take into account for the foreign tax credit. You may have to make additional reductions if the failure continues.

Note: *The reduction in foreign taxes is reduced by any dollar penalty imposed under section 6038(b).*

- *Reduction of Credit for International Boycott Operations.*—In general, if you agree to participate in, or cooperate with, an international boycott, file **Form 5713**, International Boycott Report. Reduce either the total taxes available for credit or the credit otherwise allowable.

If you can figure the taxes specifically for boycott operations, enter the amount on Part III, line 4.

However, if you cannot figure the amount of taxes attributable to boycott operations, multiply the credit otherwise allowable by the international boycott factor. Enter the result on Part IV, line 9.

For more information, see Form 5713 and its instructions.

If any of the above items apply to you, attach a statement showing in detail how you figured the reduction. Enter the total of the items to be subtracted from your foreign taxes on line 4.

Line 6.—The amount on line 6 is your income from sources outside the U.S. before adjustments. If the amount on line 6 is a loss, skip lines 7 through 13. You have no foreign tax credit for the category of income checked at the top of this Form 1116. If, however, you are required to recharacterize income from another category (see **Recharacterization of Income,** below), you must complete line 7 even if you have a loss on line 6.

Line 7.—You are required to increase or decrease the amount on line 6 by the following adjustments. The adjustments are described below and must be made in the order listed. If you have more than one adjustment, enter the net adjustment on line 7. You must attach a schedule showing your computation. If any of these adjustments apply, see Pub. 514. It contains more detailed information, including examples of some of the adjustments. The adjustments are:

1. Allocation of Losses From Other Categories. If you are completing more than one Form 1116 and you have a loss in one or more other foreign income categories, you must reduce the income on line 6 by entering (in brackets) on line 7 a pro rata share of the loss(es).

2. Recapture of Prior Year Overall Foreign Loss. If you had an overall foreign loss in a prior year that offset U.S. source income, a part of your foreign income is treated as U.S. source income in each following tax year. The part that is treated as U.S. source income is the **smallest** of: (1) the amount of overall foreign loss not recaptured in earlier years, (2) 50% or more of your taxable income from foreign sources, or (3) the amount of income in the former loss category.

Reduce the income on line 6 by entering (in brackets) on line 7 the smallest of (1), (2), or (3). This is the amount of the recapture. Be sure to attach your computation. If you elect to recapture more of an overall foreign loss than is required, you must show in your computation the percentage of taxable income recaptured and the dollar amount of the recapture.

Regulations section 1.904(f)-1(b) requires that you attach a statement to Form 1116 showing the balance in each separate limitation overall foreign loss account.

3. Recharacterization of Income. If, in 1987, you reduced your foreign taxable income in the category shown at the top of this Form 1116 by a pro rata share of a loss from another category, you must recharacterize in 1988 all or part of any income you receive in 1988 in the former loss category. This income is recharacterized as income in the category shown at the top of this Form 1116. Increase the amount on line 6 by entering on line 7 any recharacterized income.

Note: *Recharacterization of income from a separate category does not result in recharacterizing any tax.*

4. Allocation of U.S. Losses. If you have a net loss from U.S. sources in 1988, you must proportionately allocate that loss among the separate categories of your foreign income. Reduce the income on line 6 by entering (in brackets) on line 7 the allocable portion of any U.S. loss. A U.S. loss includes a rental loss on property located in the U.S.

Part IV.—Summary of Credits From Separate Parts III

Complete this part on only one Form 1116 to summarize the credits you figured on separate Forms 1116. Enter the credits from line 13, Part III, of the separate Forms 1116 on lines 1 through 7 of Part IV, as appropriate. File the other Forms 1116 as attachments.

SCHEDULE D
(Form 1120)

Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

To be filed with Forms 1120, 1120-A, 1120-DF, 1120-IC-DISC, 1120F, 1120-FSC, 1120-H, 1120L, 1120-ND, 1120-PC, 1120-POL, 1120-REIT, 1120-RIC, 990-C, and certain Forms 990-T

OMB No. 1545-0123

1988

Name

Employer identification number

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less (Six months or less if acquired before 1/1/88)

(a) Kind of property and description (Example, 100 shares of "Z" Co.)	**(b)** Date acquired (mo., day, yr.)	**(c)** Date sold (mo., day, yr.)	**(d)** Gross sales price	**(e)** Cost or other basis, plus expense of sale	**(f)** Gain (or loss) ((d) less (e))
1					

2 Short-term capital gain from installment sales from Form 6252, line 22 or 30	2	
3 Unused capital loss carryover (attach computation)	3	( )
4 Net short-term capital gain or (loss)	4	

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year (More than six months if acquired before 1/1/88)

5					

6 Enter gain from Form 4797, line 7 or 9	6	
7 Long-term capital gain from installment sales from Form 6252, line 22 or 30	7	
8 Net long-term capital gain or (loss)	8	

Part III Summary of Parts I and II

9 Enter excess of net short-term capital gain (line 4) over net long-term capital loss (line 8)	9	
10 Net capital gain. Enter excess of net long-term capital gain (line 8) over net short-term capital loss (line 4)	10	
11 Total of lines 9 and 10. Enter here and on Form 1120, line 8, page 1; or the proper line on other returns	11	

Note: *If losses exceed gains, see instructions on capital losses for explanation of capital loss carrybacks.*

Instructions

(Section references are to the Internal Revenue Code unless otherwise noted.)

Purpose of Form

This Schedule D should be used by a taxpayer whose tax year begins in 1988 and who files either Forms 1120, 1120-A, 1120-DF, 1120-IC-DISC, 1120F, 1120-FSC, 1120-H, 1120L, 1120-ND, 1120-PC, 1120-POL, 1120-REIT, 1120-RIC, 990-C, or certain Forms 990-T, to report sales or exchanges of capital assets. Sales or exchanges of property other than capital assets, including property used in a trade or business, involuntary conversions (other than casualties or thefts), gain from the disposition of interest in oil, gas, or geothermal property, and the section 291 adjustment to section 1250 gains should be reported on **Form 4797,** Sales of Business Property. See the instructions for Form 4797 for more information.

If property is involuntarily converted because of a casualty or theft, use **Form 4684,** Casualties and Thefts.

Parts I and II

Generally, a corporation should report sales and exchanges, including "like-kind" exchanges, even though there is no gain or loss. No loss is allowed for a wash sale of stock or securities or from a transaction between related persons (sections 1091 and 267).

In Part I, report the sale or exchange of capital assets held one year or less. In Part II, report the sale or exchange of capital assets held more than one year. For property acquired before January 1, 1988, the holding period is 6 months.

What Are Capital Assets?—Each item of property the corporation held (whether or not connected with its trade or business) is a capital asset except:

1. Assets that can be inventoried or property held mainly for sale to customers.
2. Depreciable or real property used in the trade or business.
3. Certain copyrights; literary, musical, or artistic compositions; letters or memorandums; or similar property.

For Paperwork Reduction Act Notice, see page 1 of the Instructions for Forms 1120 and 1120-A.

Schedule D (Form 1120) 1988

4. Accounts or notes receivable acquired in the ordinary course of trade or business for services rendered or from the sale of property described in 1 above.
5. A U.S. Government publication (including the Congressional Record) received from the Government or any of its agencies in a manner other than by buying it at the price offered for public sale, which is held by a taxpayer who received the publication or by a second taxpayer in whose hands the basis of the publication is determined, for purposes of determining gain from a sale or exchange, by referring to its basis in the hands of the first taxpayer.

Exchange of "like-kind" property.—Report the exchange of "like-kind" property on Schedule D or on Form 4797, whichever applies. The corporation must report it even though no gain or loss is recognized when business or investment property is exchanged for property of "like-kind." (This does not include stock in trade or other property held primarily for sale. It also does not include stocks, bonds, notes, choses in action, certificates of trust or beneficial interest, or other securities or evidences of indebtedness. Generally, it does not include exchanges of partnership interests. See section 1031.)

If Schedule D is used, identify in column (a) the property disposed of. Enter the date it was acquired in column (b), and the date it was exchanged in column (c). Write "like-kind exchange" in column (d). Enter the cost or other basis in column (e). Enter zero in column (f).

Special Rules for the Treatment of Certain Gains and Losses

Note: *For more information, get* ***Publication 544,*** *Sales and Other Dispositions of Assets, and* ***Publication 542,*** *Tax Information on Corporations.*

- **Gains and losses from passive activities.**—A closely held or personal service corporation that has a gain or loss which relates to a passive activity (section 469) may be required to complete **Form 8810,** Corporate Passive Activity Loss and Credit Limitations, before completing Schedule D. See Form 8810 for details.

- **Gain on distributions of appreciated property.**—Generally, gain (but not loss) is recognized on a nonliquidating distribution of appreciated property to the extent that the property's fair market value exceeds its adjusted basis. See section 311 for more information.

- **Gain or loss on distribution of property in complete liquidation.**—Generally, gain or loss is recognized by a corporation upon the liquidating distribution of property as if it had sold the property at its fair market value. An exception to this rule applies for liquidations of certain subsidiaries. See sections 336 and 337 for more information and other exceptions to the general rules. In addition, the special nonrecognition rules governing 12-month liquidations have been repealed. However, section 633(d) of the Tax Reform Act of 1986 provides a transition rule for certain qualified small corporations that completely liquidate before January 1, 1989. These corporations should get **Form 964-A,** Computation of Gain or Loss Recognized by Qualified Corporations on Complete Liquidation, to compute their gain or loss before completing Schedule D.

- **Gains and losses on section 1256 contracts and straddles.**—Use **Form 6781,** Gains and Losses From Section 1256 Contracts and Straddles, to report gains and losses from section 1256 contracts and straddles.

- **Gain or loss on certain short-term Federal, state, and municipal obligations.**—Such obligations are treated as capital assets in determining gain or loss. On any gain realized, a portion is treated as ordinary income and the balance is considered as a short-term capital gain. See section 1271.

- **Gain from installment sales.**—If a corporation has a gain this year from the sale of real property or a casual sale of personal property other than inventory and is to receive any payment in a later year, it must use the installment method (unless it elects not to) and file **Form 6252,** Installment Sale Income. Also use Form 6252 if a payment is received this year from a sale made in an earlier year on the installment basis.

The corporation may elect out of the installment method by doing the following on a timely filed return (including extensions):

1. Report the full amount of the sale on Schedule D.
2. If the corporation received a note or other obligation and is reporting it at less than face value (including all contingent obligations), state that fact in the margin and give the percentage of valuation.

The installment method may not be used for sales of stock or securities (or certain other property described in the regulations) traded on an established securities market. See section 453(k).

- **Gain or loss on an option to buy or sell property.**—See sections 1032 and 1234 for the rules that apply to a purchaser or grantor of an option.

- **Gain or loss from a short sale of property.**— Report the gain or loss to the extent that the property used to close the short sale is considered a capital asset in the hands of the taxpayer.

- **Gains and losses of foreign corporations from the disposition of investment in United States real property.**—Foreign corporations are required to report gains and losses from the disposition of U.S. real property interests. See section 897 for details.

- **Gains on certain insurance property.**—Form 1120L filers with gains on property held on December 31, 1958, and certain substituted property acquired after 1958 should see section 818(c).

- **Loss from the sale or exchange of capital assets of an insurance company taxable under section 831.**—Under the provisions of section 834(c)(6), the capital losses of a property and casualty insurance company are deductible to the extent that the assets were sold to meet abnormal insurance losses or to provide for the payment of dividend and similar distributions to policyholders.

- **Loss from securities that are capital assets that become worthless during the year.**— Except for securities held by a bank, treat the loss as a capital loss as of the last day of the tax year. (See section 582 for the rules on the treatment of securities held by a bank.)

- **Nonrecognition of gain on sale of stock to an ESOP.**—See section 1042 for rules under which a taxpayer may elect not to recognize gain from the sale of certain stock to an employee stock ownership plan (ESOP).

- **Disposition of market discount bonds.**— See section 1276 for rules on the disposition of any market discount bonds that were issued after July 18, 1984.

- **Capital gain distributions.**— Report capital gain distributions paid by mutual funds as long-term capital gains on line 5 regardless of how long the corporation owned stock in the fund.

How To Determine the Cost or Other Basis of the Property

In determining gain or loss, the basis of property will generally be its cost (section 1012). The exceptions to the general rule are provided in sections contained in subchapters C, K, O, and P of the Code. For example, if the corporation acquired the property by dividend, liquidation of a corporation, transfer from a shareholder, reorganization, contribution or gift, bequest, bankruptcy, tax-free exchange, involuntary conversion, certain asset acquisitions, or wash sale of stock, see sections 301 (or 1059), 334, 362 (or 358), 1014, 1015, 372 (or 374), 1031, 1033, 1060, and 1091, respectively. Attach an explanation if the corporation uses a basis other than actual cash cost of the property.

If the corporation is allowed a charitable contribution deduction because it sold property to a charitable organization, figure the adjusted basis for determining gain from the sale by dividing the amount realized by the fair market value and multiplying that result by the adjusted basis.

Capital losses.—The amount of capital losses allowed may not be more than capital gains. A net capital loss may be carried back 3 years and forward 5 years as a short-term capital loss. Carry back a capital loss to the extent it does not increase or produce a net operating loss in the tax year to which it is carried. Foreign expropriation capital losses may not be carried back, but may be carried forward 10 years instead of 5. A net capital loss for a regulated investment company may be carried forward 8 years instead of 5.

At-risk limitations (section 465).—If the corporation sold or exchanged an asset used in an activity to which the at-risk rules apply, combine the gain or loss on the sale or exchange with the profit or loss from the activity. If the result is a net loss from the activity, it may be subject to the at-risk rules.

SCHEDULE K-1
(Form 1120S)
Department of the Treasury
Internal Revenue Service

Shareholder's Share of Income, Credits, Deductions, Etc.

For calendar year 1988 or tax year
beginning ...., 1988, and ending ...., 19....
▶ **For Paperwork Reduction Act Notice, see page 1 of Instructions for Form 1120S.**

OMB No. 1545-0130

1988

Shareholder's identifying number ▶	**Corporation's identifying number** ▶
Shareholder's name, address, and ZIP code	Corporation's name, address, and ZIP code

A Shareholder's percentage of stock ownership for tax year (see instructions for Schedule K-1) . . . . ▶ %

B Internal Revenue Service Center where corporation filed its return ▶

C Tax shelter registration number (see Instructions for Schedule K-1) . . . . ▶

D If the shareholder acquired corporate stock after 10/22/86, check here ▶ ☐ and enter the shareholder's weighted percentage increase in stock ownership for 1988 (see instructions for Schedule K-1) . . . . ▶ %

E If any activity for which income or loss is reported on line 1, 2, or 3, was started or acquired by the corporation after 10/22/86, check here ▶ ☐ and enter the date of start up or acquisition in the date space on line 1, 2, or 3 **below.**

Reminder: If you received a 1987 Schedule K-1 that was for a short year and you chose to report the 1987 amounts over a 4-year period, be sure to include one-fourth of the short year amounts, in addition to the items reported on this Schedule K-1, on the appropriate lines of your 1988 Form 1040 and related schedules.

Caution: *Refer to Shareholder's Instructions for Schedule K-1 before entering information from Schedule K-1 on your tax return.*

		(a) Distributive share items		(b) Amount	(c) Form 1040 filers enter the amount in column (b) on:
Income (Loss) and Deductions	1	Ordinary income (loss) from trade or business activity(ies). If applicable, enter date asked for in item E . . . . . ▶ ________	1		See Shareholder's Instructions for Schedule K-1 (Form 1120S).
	2	Net income (loss) from rental real estate activity(ies). If applicable, enter date asked for in item E . . . . . ▶ ________	2		
	3	Net income (loss) from rental activity(ies) other than line 2 above. If applicable, enter date asked for in item E . . . ▶ ________	3		
	4	Portfolio income (loss):			
	a	Interest	4a		Sch. B, Part I, line 2
	b	Dividends	4b		Sch. B, Part II, line 4
	c	Royalties	4c		Sch. E, Part I, line 5
	d	Net short-term capital gain (loss)	4d		Sch. D, line 5, col. (f) or (g)
	e	Net long-term capital gain (loss)	4e		Sch. D, line 12, col. (f) or (g)
	f	Other portfolio income (loss) *(attach schedule)*	4f		(Enter on applicable line of your return.)
	5	Net gain (loss) under section 1231 (other than due to casualty or theft)	5		Form 4797, line 1
	6	Other income (loss) *(attach schedule)*	6		(Enter on applicable line of your return.)
	7	Charitable contributions	7		Sch. A, line 14 or 15
	8	Expense deduction for section 179 property *(attach schedule)* . . .	8		See Shareholder's Instructions for Schedule K-1 (Form 1120S).
	9	Deductions related to portfolio income (loss) *(attach schedule)* .	9		
	10	Other deductions *(attach schedule)*	10		
Credits	11a	Jobs credit	11a		Form 5884
	b	Low-income housing credit: (1) Partnerships to which section 42(j)(5) applies	b(1)		Form 8586, line 5
		(2) Other	b(2)		
	c	Qualified rehabilitation expenditures related to rental real estate activity(ies) *(attach schedule)*	11c		See Shareholder's Instructions for Schedule K-1 (Form 1120S).
	d	Credits related to rental real estate activity(ies) other than on lines 11b and 11c *(attach schedule)*	11d		
	e	Credits related to other rental activity(ies) (see instructions for Schedule K-1) *(attach schedule)*	11e		
	12	Other credits *(attach schedule)*	12		
Investment Interest	13a	Interest expense on investment debts	13a		Form 4952, line 1
	b	(1) Investment income included on Schedule K-1, lines 4a through 4f	b(1)		See Shareholder's Instructions for Schedule K-1 (Form 1120S).
		(2) Investment expenses included on Schedule K-1, line 9 . . .	b(2)		

	(a) Distributive share items		(b) Amount	(c) Form 1040 filers enter the amount in column (b) on:
Tax Preference and Adjustment Items	**14a** Accelerated depreciation of real property placed in service before 1987	**14a**		Form 6251, line 5e
	b Accelerated depreciation of leased personal property placed in service before 1987	**14b**		Form 6251, line 5f
	c Depreciation adjustment on property placed in service after 1986	**14c**		Form 6251, line 4j
	d Depletion (other than oil and gas)	**14d**		Form 6251, line 5c
	e (1) Gross income from oil, gas, or geothermal properties	**e(1)**		See Form 6251 Instructions.
	(2) Gross deductions allocable to oil, gas, or geothermal properties	**e(2)**		
	f Other items *(attach schedule)*	**14f**		See Shareholder's Instructions for Schedule K-1 (Form 1120S).
Foreign Taxes	**15a** Type of income ▶			Form 1116, Check boxes
	b Name of foreign country or U.S. possession ▶			Form 1116, Part I
	c Total gross income from sources outside the U.S. *(attach schedule)*	**15c**		Form 1116, Part I
	d Total applicable deductions and losses *(attach schedule)*	**15d**		Form 1116, Part I
	e Total foreign taxes (check one): ▶ ☐ Paid ☐ Accrued	**15e**		Form 1116, Part II
	f Reduction in taxes available for credit *(attach schedule)*	**15f**		Form 1116, Part III
	g Other *(attach schedule)*	**15g**		See Form 1116 Instructions.
Other Items	**16** Property distributions (including cash) other than dividend distributions reported to you on Form 1099-DIV	**16**		See Shareholder's Instructions for Schedule K-1 (Form 1120S).
	17 Amount of loan repayments for "Loans from Shareholders"	**17**		
Recapture of Tax Credits	**18** Low-income housing credit: **a** Partnerships to which section 42(j)(5) applies	**18a**		Form 8611
	b Other	**18b**		Form 8611

	19 Investment Credit Properties:	A	B	C	
Recapture of Tax Credits	**a** Description of property (State whether recovery or nonrecovery property. If recovery property, state whether regular percentage method or section 48(q) election used.)				Form 4255, top
	b Date placed in service				Form 4255, line 2
	c Cost or other basis				Form 4255, line 3
	d Class of recovery property or original estimated useful life				Form 4255, line 4
	e Date item ceased to be investment credit property				Form 4255, line 8

Supplemental Schedules

20 Supplemental information for lines 1 through 19 that is required to be reported separately to each shareholder (attach additional schedules if more space is needed):

1988 **Department of the Treasury**
Internal Revenue Service

Shareholder's Instructions for Schedule K-1 (Form 1120S)

Shareholder's Share of Income, Credits, Deductions, Etc.

(For Shareholder's Use Only)

(Section references are to the Internal Revenue Code unless otherwise noted.)

Changes You Should Note

Changes to Schedule K-1

Questions D and E of the 1987 Schedule K-1 deleted.—Under the provisions of temporary regulations section 1.469-5T, the determination of whether a shareholder materially or actively participates in an activity held through an S corporation must be made by the shareholder rather than the corporation. Accordingly, Questions D and E, dealing with material and active participation, have been deleted from Schedule K-1 for 1988. With this change, the corporation must give you information showing the net income (loss), expenses, and credits from each trade or business activity and from each rental activity held through the corporation. You must determine your level of participation in each activity. For details on making the determination, see Passive Activity Limitations on page 3.

Reminders

Four-year ratable spread of 1987 short-year income.—Many S corporations were required to change their tax years in 1987. If your corporation was affected by this required change, it gave you two Schedules K-1 in 1987, one for its full year ending in 1987 and one for its short tax year ending in 1987. The corporation should have identified the Schedule K-1 for the short year by checking the box in Item H in the upper part of the 1987 Schedule K-1. If you had net income from a 1987 short-year Schedule K-1, you were given the option of reporting your distributive share of the short-year income in full in 1987 or spreading it ratably over four years. If you chose to report your distributive share over four years, be sure to report 25% of each income and expense item on your 1988 income tax return. When you report each item on the applicable form or schedule of your return, if an itemization by source is required, you should: list it on a separate line, identify the S corporation to which the income or expense relates, and identify the income or expense as a prior year amount by writing "PYA" beside it.

Note: *The adjusted basis of your stock in the corporation shall be determined as if all the income reported over the 4-year period were included in gross income for your first tax year of the 4-year period. Also, if you dispose of an interest in the corporation, any applicable remaining unreported income for the short year must be included in the year of disposition.*

Interest due under section 453(l)(3).—See the instructions for line 20, item l, for details on interest that you, as a shareholder, must pay if the corporation elected to report the disposition of certain timeshares and residential lots on the installment method.

Capitalization of interest under section 263A(f).—See the instructions for line 20, item n, for details on interest on debt that you as a shareholder must capitalize if the debt proceeds were used for certain construction expenditures of the corporation.

Interest due or to be refunded for certain long-term contracts under section 460(b)(3).—If the provisions of section 460(b)(3) apply, the corporation should have provided you with information to complete **Form 8697,** Interest Computation Under the Look-Back Method for Completed Long-Term Contracts. See the instructions for line 20, item o, and Form 8697, for additional information.

Tax Law Change

Installment sales of certain property.—A new rule in section 453A(c) applies to installment sales of property by certain nondealers. If the new rule applies to the corporation, corporate shareholders must increase their tax liability by the interest charge required by section 453A(c). When applicable, the corporation will provide information to its shareholders to figure the interest. See the instructions for line 20, item m, for more information.

Purpose of Schedule K-1

The corporation uses Schedule K-1 (Form 1120S) to report your share of the corporation's income (reduced by any tax the corporation paid on the income), credits, deductions, etc. Please keep it for your records.

Although the corporation is subject to a capital gains tax (or built-in gains tax) and an excess net passive income tax, you, the shareholder, are liable for income tax on your share of the corporation's income, whether or not distributed, and you must include your share on your tax return. **Your distributive share of S corporation income is not self-employment income and it is not subject to self-employment tax.**

You should use these instructions to help you report the items shown on Schedule K-1 on your tax return.

Where "(attach schedule)" appears next to a line on Schedule K-1, it means the information for these lines (if applicable) will be shown in the "Supplemental Schedules" space below line 20 of Schedule K-1, or if additional space was needed, the corporation will have attached a statement to Schedule K-1 to show the information for the line item.

The notation "(see instructions for Schedule K-1)" in items A, C, and D at the top of Schedule K-1 is directed to the corporation. You, as a shareholder, should disregard these notations.

Schedule K-1 does not show the amount of actual **dividend** distributions the corporation paid to you. The corporation must report to you such amounts totaling $10 or more during the calendar year on Form 1099-DIV. You report actual dividend distributions on Schedule B (Form 1040).

General Instructions

Basis in Corporate Stock.—You are responsible for maintaining records to show the computation of your basis in stock of the corporation. Schedule K-1 provides you with information to help you make the computation at the end of each corporate tax year. Your basis in stock is adjusted as follows (this list is not all-inclusive):

Increased for:

(1) All income (including tax-exempt income) reported on Schedule K-1. **Note:** *Taxable income must be reported on your tax return (if a return is required) for it to increase your basis.*

(2) The excess of the deduction for depletion over the basis of the property subject to depletion.

Decreased for:

(1) Property distributions made by the corporation (excluding dividend distributions reported on Form 1099-DIV and distributions in excess of basis) reported on Schedule K-1, line 16.

(2) All losses and deductions (including nondeductible expenses) reported on Schedule K-1.

Inconsistent Treatment of Items Shown on This Schedule K-1 (and Any Attached Schedule or Similar Statements).—You must treat corporate items on your return consistent with the way the corporation treated the items on its filed return. See sections 6242, 6243, and 6244 for more information.

If your treatment on your original or amended return is (or may be) inconsistent with the corporation's treatment, or if the corporation has not filed a return, you must file **Form 8082**, Notice of Inconsistent Treatment or Amended Return, with your original or amended return to identify and explain the inconsistency (or noting that a corporate return has not been filed).

If you are required to file Form 8082 but fail to do so, you may be subject to the negligence penalty under section 6653(a). This penalty is in addition to any tax that results from making your amount or treatment of the item consistent with that shown on the corporation's return. Any deficiency that results from making the amounts consistent may be assessed immediately.

Errors.—If you believe the corporation has made an error on your Schedule K-1, notify the corporation and ask for a corrected Schedule K-1. Do not change any items on your copy. Be sure that the corporation sends a copy of the corrected Schedule K-1 to the IRS. If you are unable to reach agreement with the S corporation regarding the inconsistency, you must file Form 8082 as explained in the previous paragraph.

Tax Shelters.—If you receive a copy of **Form 8271**, Investor Reporting of Tax Shelter Registration Number, or if your S corporation is involved in a tax shelter, see the instructions for Form 8271 for the information you are required to furnish the Internal Revenue Service. Attach the completed forms to your income tax return. The tax shelter registration number can be found in item C at the top of your Schedule K-1.

Windfall Profit Tax.—If you are a producer of domestic crude oil, your corporation will inform you of your income tax deduction for windfall profit tax on **Form 6248**, Annual Information Return of Windfall Profit Tax, and not on this Schedule K-1. In addition, you must determine if you are entitled to a refund of overpaid windfall profit tax. See **Form 6249**, Computation of Overpaid Windfall Profit Tax. You will not be notified of any overpayment on this Schedule K-1.

Note: *The windfall profit tax does not apply to crude oil removed after August 22, 1988.*

International Boycotts.—Every S corporation that had operations in, or related to, a boycotting country, company, or national of a country, must file **Form 5713**, International Boycott Report. If the corporation did not cooperate with an international boycott and notifies you of that fact, you do not have to file Form 5713 unless you had other boycotting operations.

If the corporation cooperated with an international boycott, it must give you a copy of the Form 5713 that it filed. You also must file Form 5713 to report the activities of the corporation and any other boycott operations of your own. You may lose certain tax benefits if the corporation participated in, or cooperated with, an international boycott. Please see Form 5713 and the instructions for more information.

Elections.—Generally, the corporation decides how to figure taxable income from its operations. For example, it chooses the accounting method and depreciation methods it will use.

However, certain elections are made by you separately on your income tax return and not by the corporation. These elections are made under:

- Section 901 (foreign tax credit);
- Section 617 (deduction and recapture of certain mining exploration expenditures); and
- You may make an election under section 59(e) to deduct ratably, over the period of time specified in section 59(e), certain qualified expenditures. For more information see the instructions for line 20, item g.

Additional Information.—For more information on the treatment of S corporation income, credits, deductions, etc., see **Publication 589**, Tax Information on S Corporations; **Publication 535**, Business Expenses; **Publication 536**, Net Operating Losses; **Publication 925**, Passive Activity and At-risk Rules; and **Publication 550**, Investment Income and Expenses.

Specific Instructions

Name, Address, and Identifying Number.

Name, Address, and Identifying Number.—Your name, address, and identifying number, the corporation's name, address, and identifying number, and items A and B should have been entered. If the corporation is involved in a tax shelter, item C should also be completed.

If applicable, items D and E should be completed. The information in D and E is provided to help you apply the passive activity rules explained later in the instructions.

Lines 1 through 20

The amounts on lines 1 through 20 show your distributive share of ordinary income, loss, deductions, credits, and other information from all corporate activities. They do not take into account limitations on losses, credits, or other items that may have to be adjusted because of: (1) your adjusted basis in stock and debt of the corporation, (2) the amounts you are at risk as determined under section 465, (3) the passive activity limitations of section 469, or (4) any other limitation which must be taken into account at the individual level in figuring taxable income (e.g., the section 179 expense limitation). The limitations of (1), (2), and (3) are discussed below, and the limitations for (4) are discussed throughout these instructions and in other referenced forms and instructions.

If you are an individual, and your distributive share items are not limited by any of the limitations, report the amounts shown in column (b) of Schedule K-1 as indicated in column (c). If any of the limitations apply, enter the column (b) amounts on your return after making adjustments for the limitations. When applicable, the passive activity limitations on losses are applied after the limitations on losses for a shareholder's basis in stock and debt and the shareholder's at-risk amount.

Note: *The line number references in column (c) are to forms in use for tax years beginning in 1988. If you are a calendar year shareholder in a fiscal year 1988–89 corporation, enter these amounts on the corresponding lines of the tax form in use for 1989.*

Caution: *If you have losses, deductions, credits, etc., from a prior year that were not deductible or usable because of certain limitations, such as the at-risk rules, they may be taken into account in determining your income, loss, etc., for this year. However, do not combine the prior-year amounts with any amounts shown on this Schedule K-1 to get a net figure to report on your return. Instead, report the amounts on your return on a year-by-year basis.*

Aggregate Losses and Deductions Limited to Basis in Stock and Debt

Generally, your deduction for your share of aggregate losses and deductions reported on Schedule K-1 is limited to your basis in stock and debt of the corporation. Your basis in stock is figured at year end. See **Basis in Corporate Stock** in the General Instructions. Your basis in loans made to the corporation is the balance the corporation now owes you, less any reduction for losses in a prior year. See the instructions for line 17. Any loss not allowed for the tax year because of this limitation is available for indefinite carryover, limited to your basis in stock and debt, in each subsequent tax year. See section 1366(d) for details.

At-Risk Limitations

Generally, if you have (1) a loss from any activity carried on as a trade or business or for the production of income by the corporation, and (2) amounts in the activity for which you are not at risk, you will have to complete **Form 6198,** Computation of Deductible Loss From an Activity Described in Section 465(c), to figure the allowable loss to report on your return.

Generally, your deductible loss from each activity for the tax year is limited to the amount you are at risk for the activity at the end of the corporation's tax year, or the amount of the loss, whichever is less. You are **not at** risk for the following:

a. Your basis in stock of the corporation or basis in loans you made to the corporation if the cash or other property used to purchase the stock or make the loans was from a source covered by nonrecourse indebtedness (except for qualified nonrecourse financing defined in section 465(b)(6)) or protected against loss by a guarantee, stop-loss agreement, or other similar arrangement, or that is covered by indebtedness from a person who has an interest in the activity or from a related person to a person (other than the taxpayer) having such an interest, other than a creditor.

b. Any cash or property contributed to a corporate activity, or your interest in the corporate activity, that is covered by nonrecourse indebtedness (except for qualified nonrecourse financing defined in section 465(b)(6)) or protected against loss by a guarantee, stop-loss agreement, or other similar arrangement, or that is covered by indebtedness from a person who has an interest in such activity or from a related person to a person (other than the taxpayer) having such an interest, other than a creditor.

Any loss from a section 465 activity not allowed for this tax year will be treated as a deduction allocable to the activity in the next tax year.

Note: *If the corporation sells or otherwise disposes of (1) an asset used in the activity to which the at-risk rules apply or (2) any part of its interest in such an activity (or if you sell or dispose of your interest), you must combine the gain or loss on the sale or disposition with the profit or loss from the activity to determine the net profit or loss from the activity. If this is a net loss, it may be limited because of the at-risk rules.*

To help you complete Form 6198, if required, the corporation should tell you your share of the total pre-1976 loss(es) from a section 465(c)(1) activity (i.e., films or video tapes, leasing section 1245 property, farm, or oil and gas property) for which there existed a corresponding amount of nonrecourse liability at the end of the year in which the loss(es) occurred. In addition, you should get a separate statement of income, expenses, etc., for each activity from the corporation.

Passive Activity Limitations

Passive Activity Limitations In general, section 469 provides rules that limit the deduction of certain losses and credits. The rules apply to shareholders who:

- Are individuals, estates, or trusts, and
- Have a passive activity loss or credit for the year.

Passive activities include: (1) a trade or business activity in which you do not materially participate, and (2) activities that meet the definition of rental activities under regulations section 1.469-1T(e)(3).

Passive activities do not include: (1) trade or business activities in which you materially participate; (2) qualifying low-income housing activities; and (3) an activity of trading personal property for the account of owners of interests in the activity.

The corporation will identify separately each activity that may be passive to you. If the corporation is conducting more than one activity, it will report information in the line 20 Supplemental Schedules space, or attach a statement if more space is needed, that: (1) identifies each activity (trade or business activity, rental real estate activity, rental activity other than rental real estate, etc.); (2) specifies the income (loss), deductions, and credits from each activity; (3) identifies activities that were acquired or started after October 22, 1986; and (4) provides other details you may need to determine if an activity loss or credit is limited by the passive activity limitations.

If you determine that you have a passive activity loss or credit, get **Form 8582,** Passive Activity Loss Limitations, to figure your allowable passive loss and **Form 8582-CR,** Passive Activity Credit Limitations, to figure your allowable passive credit. See the instructions for these forms for more information.

Material Participation in Trade or Business Activities.—You must determine whether you materially participated in each trade or business activity held through the corporation. All determinations of material participation are made with respect to participation during the corporation's tax year.

Material participation standards for shareholders that are individuals are listed below. Special rules apply to certain retired or disabled farmers and to the surviving spouses of farmers. See regulations section 1.469-5T and the instructions for Form 8582 for details.

Shareholders that are estates or trusts should refer to the instructions for Form 8582 for the material participation standards that apply to them.

Individuals.—If you are an individual, you are considered to materially participate in a trade or business activity only if:

1. You participated in the activity for more than 500 hours during the tax year; or

2. Your participation in the activity for the tax year constituted substantially all of the participation in the activity of all individuals (including individuals who are not owners of interests in the activity); or

3. You participated in the activity for more than 100 hours during the tax year, and your participation in the activity for the tax year was not less than the participation in the activity of any other individual (including individuals who are not owners of interests in the activity) for the tax year; or

4. The activity is a significant participation activity (see definition below) for the tax year, and your aggregate participation in all significant participation activities (including those outside of the corporation) during the tax year exceeds 500 hours; or

5. You materially participated in the activity for any five tax years (whether or not consecutive) during the 10 tax years that immediately precede the tax year; or

6. The activity is a personal service activity (see definition below) and you materially participated in the activity for any 3 tax years (whether on not consecutive) preceding the tax year; or

7. Based on all of the facts and circumstances, you participated in the activity on a regular, continuous, and substantial basis during the tax year.

Definitions and Special Rules

Significant participation activity.—A significant participation activity is a trade or business activity in which you participated for more than 100 hours during the year and which would be an activity in which you did not materially participate if material participation were determined without regard to paragraph 4, above.

Personal service activity.—A personal service activity is an activity involving the performance of personal services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, or any other trade or business in which capital is not a material income-producing factor.

Work counted toward material participation.—Generally, any work that you or your spouse do in connection with an activity held through an S corporation (where you have stock ownership at the time the work is done) is counted toward material participation. However, work in connection with an activity is not counted toward material participation if: (1) the work is not the sort of work that owners of the activity would usually do and one of the principal purposes of the work that you or your spouse do is to avoid the passive loss or credit limitations, or (2) you do the work in your capacity as an investor and you are not directly involved in the day-to-day operations of the activity. Examples of work done as an investor which would not count toward material participation include: (a) studying and reviewing financial statements or reports on operations of the activity; (b) preparing or compiling summaries or analyses of the finances or operations of the activity; and (c) monitoring the finances or operations of the activity in a non-managerial capacity.

Low-income housing activities.—Transitional relief is provided in the case of certain losses from low-income housing activities. The corporation will identify any low-income housing activities on an attachment to your Schedule K-1. See Publication 925 for more information.

Rental real estate activities.—The following special rule applies to losses from rental real estate activities in which you actively participate. If you actively participate, you are allowed to offset excess losses (and the deduction equivalent of credits from the activity) against up to $25,000 of nonpassive income. This $25,000 amount is phased out when your adjusted gross income (line 31, page 1, Form 1040) exceeds $100,000 ($200,000 in the case of the low-income housing credit). Forms 8582 and 8582-CR provide for the $25,000 allowance.

Active participation in rental real estate activities.—Generally, you are considered to actively participate in a rental real estate activity if you participated in making management decisions or arranging for others to provide services (such as repairs) in a significant and bona fide sense. You do not actively participate in an activity if your interest (including any interest of your spouse) in the activity at any time during the year is less than 10% (by value) of all interests in the activity. See the instructions for Form 8582 for more information on determining active participation in rental real estate activities.

Transitional phase-in of section 469 disallowance of losses and credits.—For tax years beginning in 1988, only 60% of the losses otherwise disallowed by section 469 are disallowed under the 469(m) phase-in provisions. The transitional phase-in rules apply to passive losses or credits attributable to a qualified interest (stock ownership) in a pre-enactment activity. A qualified interest means stock in the corporation held on October 22, 1986, and at all times thereafter. A pre-enactment activity is generally an activity that was being conducted on October 22, 1986. However, a pre-enactment activity also includes an activity that was acquired or constructed pursuant to a written binding contract in effect on August 16, 1986. The phase-in rules do not apply to losses or credits from activities which are not pre-enactment activities or if your interest (stock ownership) in the activity was acquired after October 22, 1986. Item D of Schedule K-1 is completed to tell you how much of your stock ownership for the tax year is attributable to stock acquired after October 22, 1986. Item E is completed if an activity was started after October 22, 1986.

Application of the Passive Activity Rules

(1) If you determine that you materially participated in a trade or business activity of the corporation or only rental income was reported on Schedule K-1 (and you have no other losses or credits from other sources), report the income (loss), deductions, and credits from the Schedule K-1 as indicated in either column (c) of Schedule K-1 or the instructions for your tax return.

(2) If you determine that you **did not** materially participate in a trade or business activity, or you have income (losses) or credits from a rental activity of the corporation, the amounts from the respective activities are passive. Report passive income (losses), deductions, and credits as follows:

If you have net income from the passive activity, report the income as indicated on Schedule K-1 or in the instructions. If you have losses from passive activities held through the corporation or from other sources, you must also report the income on Form 8582.

If you have losses, deductions, or credits from a passive activity you must report them on the applicable line (or applicable worksheet) of Form 8582 or Form 8582-CR to determine if your losses, deductions, or credits are limited under the passive loss rules. **Note:** *See paragraphs (3) and (4) below if the box(es) in items D or E of Schedule K-1 are checked.*

(3) If item D and/or item E of Schedule K-1 was checked by the corporation, part or all of your passive activity income, loss, deductions, or credit(s) is from a passive activity that does not qualify for the transitional phase-in rules discussed above. Use the information from items D and E to determine the portion of your passive activity income, loss, deductions, or credits that are attributable to activities acquired or started before 10-23-86 and/or after 10-22-86 before you enter the activity gain, loss, or credit on Form 8582 or Form 8582-CR (or the applicable worksheets of these forms).

(4) Generally, for corporate activities started before 10-23-86, you are considered to have acquired your interest in the activity before 10-23-86 to the extent of your corporate stock ownership on 10-22-86, and at all times thereafter. If your stock ownership percentage increases after 10-22-86, you are considered to have acquired this percentage of the activity after 10-22-86. If an activity was started by the corporation after 10-22-86, you are considered to have acquired your interest in the activity after 10-22-86 regardless of when you acquired your stock in the corporation.

Paragraphs A through D below explain how you determine the part of your distributive share items (income, loss, credit, or deductions) that is attributable to an activity acquired before 10-23-86 or to an activity acquired after 10-22-86.

A. If item D of Schedule K-1 is not completed (i.e., you did not have a percentage increase in stock ownership for 1988) and the activity was started by the corporation before 10-23-86, then all of the distributive share items for the activity are for an activity acquired before 10-23-86. If a date is not shown in the date space for line 1, 2, or 3 of Schedule K-1, the activities of the corporation were started before 10-23-86.

B. If an activity is started by the corporation after 10-22-86, then all distributive share items for the activity are for an activity acquired after 10-22-86. If an activity is started after 10-22-86, the date the corporation started the activity will be shown in the date space for line 1, 2, or 3 of Schedule K-1.

C. If you become a shareholder after 10-22-86, then all distributive share items are for an activity acquired after 10-22-86 regardless of when the activity was started by the corporation.

D. If item D of Schedule K-1 is completed (i.e., you had a percentage increase in stock ownership for 1988), and an activity was started before 10-23-86, the activity is treated as 2 activities, one activity is considered acquired before 10-23-86 and the other is considered acquired after 10-22-86. Use the percentages in items A and D of Schedule K-1 to complete steps 1, 2, and 3 below to determine the portion of each distributive share item that is attributable to each activity.

(1) Divide each distributive share item (income, loss, credit, or deduction) by the decimal equivalent (e.g., 50% = .50) of the percentage shown in item A of Schedule K-1. (For example, a line 1 distributive share loss of $200 divided by .50 = $400.) Use this amount for figuring step 2, but for no other purpose.

(2) Multiply the step 1 amount by the percentage shown in item D of Schedule K-1. This amount is the portion of your distributive share item used in step 1 that is attributable to the activity acquired after 10-22-86. (For example, if item D was 10%, and the step 1 amount was $400, then $40 ($400 × 10%) is attributable to the activity acquired after 10-22-86.)

(3) Subtract the step 2 amount from your distributive share item used in step 1. This is the portion of the distributive share item that is attributable to the activity acquired before 10-23-86. (For example, your distributive share item is a loss of $200, the step 2 amount is $40, then $160 ($200 less $40 = $160) is attributable to the activity acquired before 10-23-86.)

If there is more than one distributive share item for an activity, combine the income (loss) and deductions for each activity and enter the combined income or loss for the activity on the appropriate worksheets of Form 8582. Enter any credit on the appropriate worksheet or line of Form 8582-CR.

Line-by-Line Instructions

Note: *If item D and/or E of Schedule K-1 is checked, see* **Application of the Passive Activity Rules** *above to determine the portion of any line 1, 2, or 3 passive activity income or loss that is attributable to activities acquired before 10-23-86 or acquired after 10-22-86 before entering the income, loss, or credit on Form 8582 or Form 8582-CR.*

Line 1. Ordinary income (loss) from trade or business activity(ies).—The amount reported on line 1 is your share of the ordinary income (loss) from trade or business activity(ies) of the corporation. Generally, where you report this amount on Form 1040 depends on whether or not the amount is from an activity which is a passive activity to you. If you are an individual shareholder, after applying the basis and at-risk limitations on losses, find your situation in A or B below and report your line 1 income (loss) as instructed in A or B.

A. Report line 1 income (loss) from trade or business activities in which you materially participated on Schedule E (Form 1040), Part II, column (i) or (k).

B. Report line 1 income (loss) from trade or business activities in which you did not materially participate as follows:

- If income is reported on line 1, report the income on Schedule E, Part II, column (h). If, in addition to this passive activity income, you have a passive activity loss from the corporation or from any other source, also report the line 1 income on Form 8582.
- If a loss is reported on line 1 (or any schedule for line 1), report the loss on the applicable line for Form 8582 to determine how much of the loss can be reported on Schedule E, Part II, column (g).

Line 2. Income or loss from rental real estate activity(ies).—Generally, the income (loss) reported on line 2 is a passive activity amount for all shareholders. There is an exception, however, for losses from a qualified low-income housing project. The loss limitations of section 469 do not apply to losses incurred by qualified investors in qualified low-income housing projects (see Publication 925). The corporation should have attached a schedule for line 6 to identify any such amounts.

Use the following instructions to determine where to enter a line 2 amount.

- If you have a loss on line 2, after applying the basis and at-risk limitations on losses, enter the loss on the applicable line of Form 8582 to determine how much of the loss can be reported on Schedule E (Form 1040), Part II, column (g). If you actively participated in the rental real estate activity, the loss will be eligible for the $25,000 allowance for rental real estate losses. See the instructions for Form 8582 for details.

Note: *If you are a qualified investor reporting a qualified low-income housing project loss, report the loss on Schedule E, Part II, column (i).*

- If you have income on line 2, enter the income on Schedule E, Part II, column (h). If, in addition to this passive activity income, you have a passive activity loss from the corporation or any other source, also report the income on the applicable line of Form 8582.

Line 3. Income or loss from other rental activity(ies).—The amount on line 3 (or any schedule for line 3) is a passive activity amount for all shareholders. Report the income or loss as follows:

If line 3 is a loss, report the loss on the applicable line of Form 8582.

If income is reported on line 3, report the income on Schedule E (Form 1040), Part II, column (h). If, in addition to this passive activity income, you have a passive activity loss from the corporation or from any other source, also report the line 3 income on Form 8582.

Line 4. Portfolio income (loss).—Portfolio income or loss is excluded from passive activity income or loss and is not subject to passive activity limitations. Portfolio income (sometimes referred to as nonpassive income) includes interest, dividend, annuity and royalty income not derived in the ordinary course of a trade or business, and gain or loss on the sale of property that produces such portfolio income.

Column (c) of Schedule K-1 tells shareholders where to report this income on Form 1040 and related schedules. Line 4f of Schedule K-1 is used to report income other than that reported on lines 4a through 4e. The type and the amount of income reported on line 4f will be listed in the line 20 Supplemental Schedules space of Schedule K-1. An example of the type of income that is reported in line 4f is income from a Real Estate Mortgage Investment Company (REMIC) in which the corporation is a residual interest holder. Report your share of any REMIC income on Schedule E, Part IV of Form 1040.

Line 5. Section 1231 gain (loss).—Section 1231 gain or loss is reported on line 5. The corporation will identify in the line 20 Supplemental Schedules space the activity to which the section 1231 gain (loss) relates.

If the amount on line 5 relates to a rental activity, the section 1231 gain (loss) is a passive activity amount. Likewise, if the amount relates to a trade or business activity and you do not materially participate in the activity, the section 1231 gain (loss) is a passive activity amount.

- If the amount is **not** a passive activity amount to you, report it on line 2, column (g) or (h), whichever is applicable, of **Form 4797,** Sales of Business Property. You do not have to complete the information called for in columns (b) through (f), Form 4797. Write "From Schedule K-1 (Form 1120S)" across these columns.
- If gain is reported on line 5 and it **is** a passive activity amount to you, report the gain on line 2, column (h) of Form 4797 and be sure to see "Passive Loss Limitations" on page 1 of the instructions for Form 4797.
- If a loss is reported on line 5 and it **is** a passive activity amount to you, see "Passive Loss Limitations" on page 1 of the instructions for Form 4797. You will need to use Form 8582 to determine how much of the loss is allowed on Form 4797.

Line 6. Other income (loss).—Amounts on this line are other items of income, gain, or loss not included on lines 1 through 5. The corporation should give you a description and the amount of your share for each of these items.

The instructions below tell you where to report line 6 items if such items are not passive activity amounts.

Report loss items which are passive activity amounts to you on Form 8582.

Report income or gain items which are passive activity amounts to you as instructed below. If, in addition to the passive activity income or gain, you have passive activity losses, deductions, or credits from other sources, also report the passive activity income or gain on Form 8582.

Line 6 items include the following:

a. Wagering gains and losses (section 165(d)). (Enter on applicable line of Form 1040 and Schedule A (Form 1040).)

b. Recovery of tax benefit items (section 111). (Report these amounts on line 22, page 1, Form 1040.)

c. Gain or loss from section 1256 contracts where the corporation itself was a trader or dealer in section 1256 contracts. This income (or loss) is treated as a gain (or loss) from the sale or exchange of a capital asset. See section 1256(f).

d. Net gain (loss) from involuntary conversions due to casualty or theft. The corporation will give you a schedule that shows the amounts to be reported in Section B of **Form 4684**, Casualties and Thefts.

e. Loss(es) from qualified low-income housing projects for shareholders that are qualified investors. (Report on Schedule E (Form 1040), Part II.)

f. Net short-term capital gain or loss and net long-term capital gain or loss from Schedule D (Form 1120S) that is **not** portfolio income. This gain or loss is attributable to capital transactions connected with the corporation's normal trade or business. (Associate with the line 1 trade or business activity, and report this income in the same manner as the line 1 income or loss was reported.)

The corporation should give you a description and the amount of your share of each of these items.

Line 7. Charitable contributions.—The corporation will give you a schedule that shows which of its contributions were subject to the 50%, 30%, and 20% limitations. For further information, see the Form 1040 Instructions.

If property other than cash is contributed, and the fair market value of one item or group of similar items of property exceeds $5,000, the corporation is required to file **Form 8283**, Noncash Charitable Contributions, and give you a copy to attach to your tax return. Do not deduct the amount shown on Form 8283. It is the corporation's contribution. You should deduct the amount shown on line 7, Schedule K-1.

If the corporation provides you with information that the contribution was property other than cash and does not give you a Form 8283, see the Instructions for Form 8283 for filing requirements. A Form 8283 does not have to be filed unless the total claimed value of all contributed items of property exceeds $500.

Charitable contribution deductions are not taken into account in figuring your passive activity loss for the year. Do not enter them on Form 8582.

Line 8. Section 179 expense deduction.—The amount on line 8 is your share of the corporation's section 179 expense deduction attributable to property placed in service during the corporation''s tax year. The corporation will report in the line 20 Supplemental Schedules space the other information you need to figure the section 179 expense you are allowed to claim for your 1988 tax year. The schedule will list the expense amount and identify the activity to which the expense relates. You must combine the Schedule K-1 section 179 expense with section 179 expense(s) from other sources (if any).

Generally, the maximum amount of section 179 expense you can claim from all sources is $10,000. The $10,000 limit is reduced if the section 179 property placed in service exceeds $200,000. Also, the deduction is limited to your taxable income from all trade or business activities. See the Instructions for Part I of Form 4562; Schedule E (Form 1040); and Publication 534 for more information on figuring the allowed section 179 expense you may claim for 1988.

If the section 179 deduction is a passive activity amount, report it on Form 8582. If it is not a passive activity amount, report it on Schedule E (Form 1040), Part II, column (j).

Line 9. Deductions related to portfolio income.—Amounts on line 9 are your share of deductions allocable to portfolio income reported on lines 4a through 4f (other than interest expense that is reported on line 13a of Schedule K-1). If line 9 contains more than one item of expense, each item will be identified and listed separately in the line 20 Supplemental Schedules space of Schedule K-1.

Generally, line 9 expenses are section 212 expenses. For individuals, section 212 expenses are treated as miscellaneous itemized deductions and are subject to the 2% floor of section 67. This means that miscellaneous itemized deductions may only be deducted if the total miscellaneous expenses exceed 2% of your adjusted gross income for the year.

Miscellaneous itemized deductions are not taken into account in figuring your passive activity loss for the year. Do not enter them on Form 8582.

Line 10. Other deductions.—Amounts on this line are other deductions not included on lines 7, 8, and 9, such as:

a. Itemized deductions that Form 1040 filers enter on Schedule A (Form 1040). If there was a gain (loss) from a casualty or theft to property **not** used in a trade or business or for income-producing purposes, you will be notified by the corporation. You must complete Form 4684 for the type of casualty or theft based on the information the corporation provides.

b. Any penalty on early withdrawal of savings.

c. Soil and water conservation expenditures (section 175).

d. Expenditures for the removal of architectural and transportation barriers to the elderly and handicapped which the corporation has elected to treat as a current expense. The expenses are limited by section 190.

e. Skybox or other private luxury box seat rental expenses limited under section 274. Expenses not allowed under section 274(l)(2)(A) are phased in over a 3-year period (1987, 1988, and 1989). Because the phase-in rule is based on the shareholder's tax year, rather than the corporation's tax year, the allowed section 274(l)(2) expenses must be figured and reported separately to you.

Unless the corporation knows the beginning date of your tax year, it will report your share of deductible section 274(l) expenses figured under both 1988 and 1989 tax year provisions. You report only the amount that corresponds with your tax year. If the corporation knows your tax year, it will report only the deductible amount for your tax year.

f. Expenditures for fringe benefits paid on behalf of more than 2% shareholders. **Note:** *Any expense paid for health insurance under section 162(m) is not allowed for purposes of computing self-employment tax that may result from non-S corporation activities.*

If the corporation has more than one corporate activity (line 1, 2, or 3 of Schedule K-1), it will identify the activity to which the expense(s) relates.

The corporation should also give you a description and your share of each of the expense items. Associate any expense item **c, d,** or **e** above with the line **1, 2,** or **3** activity to which it relates and report the deduction on Form 8582 (or only on Schedule E (Form 1040) if applicable) based on how the the line 1, 2, or 3 income or loss was reported.

Caution: *If you have credits that are passive activity credits to you (i.e., the activity that generated the credit was a passive activity), you must complete Form 8582-CR and the required credit form(s) to determine your allowed credit. See the instructions for Form 8582-CR for more information.*

Line 11a.—Your share of the corporation's jobs credit related to all trade or business activities is reported on line 11a. If the credit is a passive activity credit, enter it both on Form 8582-CR and **Form 5884,** Jobs Credit, to determine your allowed credit for the year. **Note:** *If you have a general business credit other than the jobs credit, you may also have to complete* **Form 3800,** *General Business Credit. If the credit is not a passive activity credit, only enter it on Form 5884 (and Form 3800 if required) to determine your allowed credit for the year. See the instructions for Form 5884 for more information.*

Line 11b.—Your share of the corporation's low-income housing credit is shown on line 11b(1) and (2). Your allowable credit is entered on **Form 8586,** Low-Income Housing Credit, (and Form 3800 if required) to determine your allowed credit for the year.

If the corporation invested in a partnership to which the provisions of section 42(j)(5) apply, it will report separately on line 11b(1) your share of the credit it received from the section 42(j)(5) partnership.

Your share of all other low-income housing credits of the corporation is reported on line 11b(2). You must keep a separate record of the amount of low-income housing credit from 11b(1) and 11b(2) so that you will be able to correctly compute any recapture of the credit that may result from the disposition of all or part of your corporate stock ownership. For more information, see the instructions for **Form 8611,** Recapture of Low-Income Housing Credit.

Caution: *You cannot claim the low-income housing credit for a low-income housing project if you, or any person, were allowed relief from the passive activity limitations on losses from the project (section 502 of the Tax Reform Act of 1986).*

Line 11c. Qualified rehabilitation expenditures related to rental real estate activities.—The corporation should attach a schedule to show your share of rehabilitation expenditures that are related to each rental real estate activity. The allowable investment credit for qualified rehabilitation expenditures is figured on **Form 3468,** Computation of Investment Credit. The investment credit is also entered on Form 8582-CR (and Form 3800 if required) to determine the allowed investment credit for the year. See the instructions for Form 3468 and Form 8582-CR for additional information.

Line 11d.—If applicable, your distributive share of any other credit (other than on line 11b or 11c) related to rental real estate activities will be shown on line 11d. If more than one credit is involved, the credits will be shown and identified as line 11d credits in the Supplemental Schedules space for line 20 of Schedule K-1, or on an attached statement if more space is needed. If the corporation has more than one rental real estate activity, each activity will be separately identified with any credit(s) of the activity, and other information needed to figure the passive activity limitations. (See **Note** below the line 12 instructions for more information.)

Line 11e.—If applicable, your share of any credit related to other rental activities will be reported on line 11e. Income or loss for these activities is reported on line 3 of Schedule K-1. If more than one credit is involved, the credits will be listed separately, each credit identified as a line 11e credit, and the activity to which the credit relates will be identified. This information will be shown in the Supplemental Schedules space under line 20 of Schedule K-1, or on an attached schedule if more space is needed. The credit may be limited by section 469 limitations. (See **Note** under the line 12 instructions for more information.)

Line 12. Other Credits.—If applicable, your distributive share of any other credit (other than on lines 11a through 11e) will be shown on line 12. If more than one credit is reported, the credits or investment credit property will be shown and identified in the line 20 Supplemental Schedules space of Schedule K-1, or on an attached schedule if more space is needed.

Line 12 credits include the following:

a. Regular and energy investment credit property related to activities for which income or loss is reported on line 1 of Schedule K-1.

b. Credit for backup withholding on dividends, interest income, and other types of income. Include the amount the corporation reports to you in the total that you enter on line 54, page 1, Form 1040. Be sure to check the box on line 54 and write "From K-1" under the checkbox (between lines 54 and 55).

c. Credit for alcohol used as fuel. Enter this credit on **Form 6478,** Credit for Alcohol Used as Fuel.

d. Nonconventional source fuel credit. Enter this credit on a schedule you prepare yourself to determine the allowed credit to take on your tax return. See section 29 for rules on how to figure the credit.

e. Unused credits from cooperatives.

f. Credit for increasing research activities and the orphan drug credit (enter these credits on **Form 6765,** Credit for Increasing Research Activities).

Enter any credit attributable to a passive activity on the appropriate worksheets (or lines) of Form 8582-CR (with passive activity credits from other sources) and the required credit computation form to figure the amount of any passive activity credit you are allowed on your tax return for 1988. **Note:** *If items D and/or E of Schedule K-1 are checked or completed, see Phase-in relief allowed for pre-enactment activities and Application of the Passive Activity Rules in the instruction for* **Passive Activity Limitations** *for rules to determine the portion of any line 11 or line 12 credit that is attributable to an activity acquired before 10-23-86 and/or an activity acquired after 10-22-86.*

Enter any credit not attributable to a passive activity on the required credit computation form (and Form 3800 if required) to figure the allowed credit for the year. See the instructions of each applicable credit form for additional information.

Investment Interest

If the corporation paid or accrued interest on debts properly allocable to investment property, the amount of the corporation's investment interest you can deduct may be limited. If applicable, the corporation will have reported on lines 13a and 13b its interest on investment debts and other items of investment income and expenses.

For more information on the limitations and special provisions that apply to investment interest expense, see **Form 4952,** Investment Interest Expense Deduction, and **Publication 550,** Investment Income and Expenses.

Line 13a—Interest expense on investment debts.—Enter this amount on Form 4952 along with investment interest expense from other sources, and complete the form to determine how much of your total investment interest is deductible.

Line 13b(1) and (2). Investment income and investment expenses.—Use the amounts on these lines to determine the amount to enter on Form 4952.

Caution: *The amounts shown on lines 13b(1) and 13b(2) include only investment income and expense reported on lines 4 and 9 of Schedule K-1. If applicable, the corporation will have listed in the line 20 Supplemental Schedules space any other items of investment income and expenses reported elsewhere on Schedule K-1. Combine these items with 13b(1) and 13b(2) income and expenses to determine your total investment income and total investment expense from the corporation. Combine these totals with investment income and expense from other sources to determine the amounts to enter on line 6 of Form 4952.*

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Tax Preference and Adjustment Items

Use the information reported on lines 14a through 14f (as well as preference and adjustment items from other sources) to prepare your **Form 6251**, Alternative Minimum Tax—Individuals, or **Form 8656**, Alternative Minimum Tax—Fiduciaries.

Lines 14e(1) and 14e(2).—The amounts reported on these lines include only the gross income from, and deductions allocable to, oil, gas, and geothermal properties that are included on line 1 of Schedule K-1. The corporation should also report separately any income from or deductions allocable to such properties that are included on lines 2 through 10. This separate information is reported in the line 20 Supplemental Schedules space, or on an attachment if more space is needed. Use the amounts reported on lines 14e(1) and 14e(2) and any scheduled amounts to help you to determine the net amount to enter on the line for intangible drilling costs on Form 6251.

Line 14f. Other.—Enter the line 14f preference and adjustment items that are shown in the line 20 Supplemental Schedules space (or attachments), with other items from other sources, on the applicable lines of Form 6251. If applicable, the following items will be reported and identified as line 14f preference items: completed contract method of accounting for long-term contracts, installment sales of certain property, losses from passive farming activities, charitable contributions of appreciated property, and information on passive activity losses not reported elsewhere. Enter these items (combined with preference items from other sources) on the appropriate line(s) of your 1988 Form 6251.

Foreign Taxes

Lines 15a through 15g.—Use the information on lines 15a through 15g, and attached schedules, to figure your foreign tax credit. For more information, see **Form 1116**, Computation of Foreign Tax Credit—Individual, Fiduciary, or Nonresident Alien Individual, and the related instructions.

Other Items

Line 16.—Reduce your basis in stock of the corporation by the distributions on line 16. If these distributions exceed your basis in stock, the excess is treated as gain from the sale or exchange of property and is reported on Schedule D (Form 1040).

Line 17.—If the line 16 payments are made on indebtedness with a reduced basis, the repayments result in income to you to the extent the repayments are more than the adjusted basis of the loan. See section 1367(b)(2) for information on reduction in basis of a loan and restoration in basis of a loan with a reduced basis. See Revenue Ruling 64-162, 1964-1 (Part 1) C.B. 304 and Revenue Ruling 68-537, 1968-2 C.B. 372, for other information.

Recapture of Tax Credits

Lines 18a and 18b. Low-income housing credit.—The corporation will report separately on line 18a your share of any recapture of a low-income housing credit attributable to its investment in partnerships to which the provisions of section 42(j)(5) apply. All other recapture of low-income housing credits will be reported on line 18b. You must keep a separate record of recapture attributable to lines 18a and 18b so that you will be able to correctly figure any credit recapture that may result from the disposition of all or part of your corporate stock ownership. Use the lines 18a and 18b amounts to compute the low-income housing credit recapture on Form 8611. See the instructions for Form 8611 and section 42(j) for additional information.

Line 19. Property subject to recapture of investment credit.—When investment credit property is disposed of, ceases to qualify, or there is a decrease in the percentage of business use before the end of the "life-years category" or "recovery period" assigned, you will be notified. You may have to recapture (pay back) the investment credit taken in prior years. Use the information on line 19 to figure your recapture tax on **Form 4255**, Recapture of Investment Credit. See the Form 3468 on which you took the original credit for other information you need to complete Form 4255.

You may also need Form 4255 if you disposed of a substantial portion of your interest in the corporation. See **Publication 572**, General Business Credit, for more information.

Line 20. Supplemental Schedules.—If applicable, the corporation should have listed in line 20, Supplemental Schedules, at the bottom of Schedule K-1, page 2, or if additional space was needed, on an attached statement to Schedule K-1, your distributive share of the following:

a. Information for lines 4f, 6, 8, 9, 10, 11c, 11d, 11e, 12, 14f, 15c, 15d, 15f, and 15g of Schedule K-1.

b. Tax-exempt interest income realized by the corporation. Generally, this income is not reported on your 1988 tax return, but does increase your basis in stock of the corporation. Tax-exempt interest earned by the corporation is stated separately for the following reasons:

(1) If applicable, to assist you in figuring the taxable portion of your social security or railroad retirement benefits. See instructions for Form 1040 for details.

(2) If you are required to file a tax return for 1988, you must report on your return as an item of information the amount of tax-exempt interest income received or accrued during the tax year. See section 6012(d).

c. Nondeductible expenses realized by the corporation. These expenses are not deducted on your tax return but decrease your basis in stock.

d. Taxes paid on undistributed capital gains by a regulated investment company (Form 1040 filers enter your share of these taxes on line 60 of Form 1040, and add the words "from Form 1120S." Also reduce your basis in stock of the S corporation by this tax.)

e. Gross income from oil and gas well property, share of production for the tax year, etc., needed to figure your depletion deduction for oil and gas wells.

The corporation should also allocate to you a proportionate share of the adjusted basis of each corporate oil or gas property. The allocation of the basis of each property is made as specified in section 613A(c)(13). See Publication 535 for how to figure your depletion deduction. Also reduce your basis in stock by this deduction (section 1367(a)(2)(E)).

f. Recapture of expense deduction for recovery property (section 179). The corporation will tell you if the recapture of expense deduction for recovery property was caused by the disposition of property.

The recapture amount is limited to the deduction you took in a prior year. You will have to look at your prior year return(s) to determine the amount that you previously deducted. See Form 4797 for additional information.

g. Total qualified expenditures paid or incurred during the tax year to which an election under section 59(e) applies.

You may either deduct the total amount of these expenditures or you may make an election under section 59(e) to deduct them ratably over the period of time specified in section 59(e). If you choose to make the election under section 59(e), the expenditures will not be classified as tax preference items and thus will not be subject to the alternative minimum tax. Make the election on Form 4562.

If you choose not to make the election, deduct the section 59(e) expenditures in full on your return (subject to any other limitations, such as the at-risk or basis limitations).

If intangible drilling costs or certain mining expenditures are passed through to you, see items **h** and **i** before making an election to deduct them under section 59(e).

h. Intangible drilling costs which may be deducted under section 263. See Publication 535 for more information. You may choose to deduct these costs under section 263 or under section 59(e) but not both.

i. Deduction and recapture of certain mining expenditures paid or incurred (section 617). You may choose to deduct section 617 expenditures under section 617 or section 59(e) but not both.

j. Any information or statements you need to comply with requirements under section 6111 (registration of tax shelters) or 6661 (substantial understatement of tax liability).

k. Gross farming and fishing income. If you are an individual shareholder, enter this income on Schedule E (Form 1040), Part VI, line 43. Do not report this income elsewhere on Form 1040.

If you are a shareholder that is an estate or trust, report this income to your beneficiaries on Schedule K-1 (Form 1041). Do not report it elsewhere on Form 1041.

l. Interest due under section 453(l)(3). If the corporation elected to report the dispositions of certain timeshares and residential lots on the installment method, your tax liability must be increased by your allocable share of the interest on tax attributable to the installment payments received by the corporation during its tax year. If applicable, use the information provided by the corporation to figure your interest liability. Include the interest on Form 1040, line 39. Also write "453(l)(3)" and the amount of the interest on the dotted line to the left of line 39.

m. Any information that you need to compute the interest due under section 453A(c) with respect to certain installment sales of property. If you are an individual, report the interest on Form 1040, line 39. Write "453A(c)" and the amount of the interest on the dotted line to the left of line 39. See **Form 6252,** Installment Sale Income, for more information. Also see section 453A(c) for details on making the computation.

n. Capitalization of interest under section 263(A)(f). To the extent that certain production or construction expenditures of the corporation are made from proceeds associated with debt that you incur as an owner-shareholder, you must capitalize the interest on this debt. If applicable, use the information on expenditures the corporation gives to you to determine the amount of interest you must capitalize. See Section XII of Notice 88-99, 1988-36 I.R.B. 29 for more information.

o. **Form 8697,** Interest Computation Under the Look-Back Method for Completed Long-Term Contracts. If the corporation provides information to compute the interest due or to be refunded under the look-back method of section 460(b)(3) on certain long-term contracts, use this information to complete Form 8697 based on the instructions for that form.

p. Preproductive period farm expenses. You may elect to deduct these expenses currently or capitalize them under section 263A. See Publication 225 and Temporary Regulation section 1.263A-1T(c) for more information.

q. Any other information you may need to file with your individual tax return that is not shown elsewhere on Schedule K-1.

Form **2210**

Department of the Treasury
Internal Revenue Service (x)

Underpayment of Estimated Tax by Individuals and Fiduciaries

▶ **See separate instructions.**

▶ **Attach to Form 1040 or Form 1041.**

OMB No. 1545-0140

1988

Attachment Sequence No. **39**

Name(s) as shown on tax return

Identifying number

Note: *In most cases, IRS can figure the penalty for you and you do not have to complete this form. See the separate instructions for more information.*

Part I Figuring Your Underpayment

1	1988 tax after credits (from Form 1040, line 47 or Form 1041, Schedule G, line 4)		1	
2	Other taxes (see instructions)		2	
3	Add lines 1 and 2		3	
4	Earned income credit	4	▨	▨
5	Credit for Federal tax on fuels	5	▨	▨
6	Add lines 4 and 5		6	
7	Subtract line 6 from line 3		7	
8	Multiply line 7 by 90% (.90)	8	▨	▨
9	Withholding taxes from 1988 Form 1040, lines 54 and 58 (or Form 1041, line 24e). (Include any credit from Form 4469.)		9	
10	Subtract line 9 from line 7. If the result is less than $500, do not complete this form. You do not owe the penalty		10	
11	Enter your 1987 tax. (**Caution:** *See instructions.*)		11	
12	Enter the smaller of line 8 or line 11		12	

If line 9 is equal to or more than line 12, do not complete this form. You do not owe the penalty.

			Payment Due Dates			
			(a) Apr. 15, 1988	(b) June 15, 1988	(c) Sept. 15, 1988	(d) Jan. 15, 1989
13	Divide line 12 by four (4) and enter the result in each column. However, if you use the annualized income installment method, complete the worksheet in the instructions and enter the amount from line 26 in each column of line 13. Also check this box ▶ ☐ and attach a copy of the worksheet	13				
	Complete lines 14 through 21 for one column before completing the next column.					
14	Estimated tax paid and tax withheld. For column (a) only, enter the amount from line 14 on line 18 (see instructions)	14				
	If line 14 is equal to or more than line 13 for all payment periods, do not complete the rest of this form. However, if you used the annualized income installment method, you must attach Form 2210 and the worksheet to your return.					
15	Enter amount, if any, from line 21 of previous column	15	▨			
16	Add lines 14 and 15	16	▨			
17	Add amounts on lines 19 and 20 of the previous column and enter the result	17	▨			
18	Enter line 16 minus line 17. If zero or less, enter zero. (For column (a) only, enter the amount from line 14.)	18				
19	Remaining underpayment from previous period. If the amount on line 18 is zero, subtract line 16 from line 17 and enter the result. Otherwise, enter zero	19	▨			
20	UNDERPAYMENT. If line 13 is larger than or equal to line 18, enter line 13 minus line 18. Then go to line 14 of next column. Otherwise, go to line 21	20				
21	OVERPAYMENT. If line 18 is larger than line 13, enter line 18 minus line 13. Then go to line 14 of next column	21				

For Paperwork Reduction Act Notice, see page 1 of separate instructions.

Part II Figuring the Penalty

		Payment Due Dates			
		(a) Apr. 15, 1988	(b) June 15, 1988	(c) Sept. 15, 1988	(d) Jan. 15, 1989
22 Underpayment from line 20, page 1	22				
Rate Period 1 – 10% (April 15, 1988—September 30, 1988)					
23a Computation starting date for this period	23a	Apr. 15, 1988	June 15, 1988	Sept. 15, 1988	
b Number of days FROM the date on line 23a TO the date line 22 was paid or September 30, 1988, whichever is earlier	23b	Days	Days	Days	
c $\frac{\text{Number of days on line 23b}}{366}$ × 10% × underpayment on line 22 (see instructions)	23c	$	$	$	
Rate Period 2 – 11% (October 1, 1988—December 31, 1988)					
24a Computation starting date for this period	24a	Sept. 30, 1988	Sept. 30, 1988	Sept. 30, 1988	
b Number of days FROM the date on line 24a TO the date line 22 was paid or December 31, 1988, whichever is earlier	24b	Days	Days	Days	
c $\frac{\text{Number of days on line 24b}}{366}$ × 11% × underpayment on line 22 (see instructions)	24c	$	$	$	
Rate Period 3 – 11% (January 1, 1989—April 15, 1989)					
25a Computation starting date for this period	25a	Dec. 31, 1988	Dec. 31, 1988	Dec. 31, 1988	Jan. 15, 1989
b Number of days FROM the date on line 25a TO the date line 22 was paid or April 15, 1989, whichever is earlier	25b	Days	Days	Days	Days
c $\frac{\text{Number of days on line 25b}}{365}$ × 11% × underpayment on line 22 (see instructions)	25c	$	$	$	$

26 PENALTY (Add all amounts on lines 23c, 24c, and 25c in all columns and enter the total.) Form 1040 filers, enter the amount from line 26 in the space provided on Form 1040, line 65, and check the box on that line. Form 1041 filers, enter the amount from line 26 in the space provided on Form 1041, line 29 and check the box on that line	26	$

1988

Department of the Treasury
Internal Revenue Service

Instructions for Form 2210

Underpayment of Estimated Tax by Individuals and Fiduciaries

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information if you use the annualized income installment method or if you claim a waiver of the penalty under Internal Revenue Code Section 6654(e)(3).

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	1 hr., 19 min.
Learning about the law or the form	31 min.
Preparing the form	1 hr., 16 min.
Copying, assembling, and sending the form to IRS	20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to either the IRS or the Office of Management and Budget at the addresses listed in the instructions for the tax return with which this form is filed.

IRS Can Figure the Penalty for You.—Generally, you do not have to complete this form because IRS can figure the amount of any penalty for you and send you a bill for it. However, you must complete and attach the form if:

a. You use the annualized installment method (see Part III of the instructions), or

b. You request a waiver of the penalty as explained in the instructions below for "Waiver of Penalty."

Other Acceptable Methods.—The Internal Revenue Service recognizes that there is more than one way to arrive at the correct penalty amount and that the instructions prescribe a method that may be different than the one you may prefer to use. Therefore, the Service will permit you to complete lines 23-25 of Part II (Figuring the Penalty), in a manner that is different than the instructions describe. However, you must show the correct penalty amount on line 26 of Part II.

Items To Note:

- For 1988, you may owe the penalty for underpaying your estimated taxes if you did not pay at least 90% of your 1988 tax liability. Previously, this percentage was 80%. See "Who Must Pay the Underpayment Penalty" for details.
- The technical corrections provisions of the Technical and Miscellaneous Revenue Act of 1988 (Titles I and II) made changes to the tax law that may affect your 1988 tax liability. IRS will waive all or part of a penalty to the extent the underpayment is attributable to changes made by the new law. See the instructions under "Waiver of Penalty."
- Estates and trusts are liable for an estimated tax penalty in the same manner as individuals. **Note:** *The Internal Revenue Service expects to issue regulations on estimated tax payments by estates and trusts. Until further guidance is available, taxpayers may rely on Notice 87-32, 1987-1 C.B. 477.*
- An underpayment for a payment period is considered paid whenever a payment is made after the installment due date, regardless of which installment the payment pertains to. For example, a taxpayer has an underpayment for the April 15 payment period of $1,000. The June 15 installment requires a payment of $2,000. Taxpayer on June 10 sends in a payment of $2,000 to cover the June 15 installment. However, $1,000 of this payment is considered to be for the April 15 installment. The penalty for the April 15 installment is figured to June 10 (56 days). The underpayment for the June 15 payment period will then be $1,000.

Purpose of Form.—Use this form to see if you must pay a penalty for underpaying your estimated tax. Use Part I to see if you paid enough estimated tax on time. If you did not, use Part II to figure the penalty on any underpayment.

Who Must Pay the Underpayment Penalty.—If you did not pay enough estimated tax by any due date for paying estimated tax, you may be charged a penalty. This is true even if you are due a refund when you file your tax return. The penalty is figured separately for each due date. Therefore, you may owe the penalty for an earlier payment due date, even if you pay enough tax later to make up the underpayment.

In general, you may owe the penalty if, for 1988, you did not pay at least the smaller of 90% of your tax liability for 1988, or 100% of your tax liability for 1987 (if you filed a 1987 return that covered a full 12 months).

Exceptions to the Penalty.—You will not have to pay the penalty or file this form if either of the two following situations applies:

1. You had no tax liability for 1987, you were a U.S. citizen or resident for that entire year, and your 1987 tax return was (or would have been had you been required to file) for a full 12 months.
2. The total tax shown on your 1988 return minus the amount of tax you paid through withholding is less than $500. To determine whether the total tax is less than $500, use Part I, lines 1 through 10.

Special Rules for Farmers and Fishermen.—If you meet both of the following tests, do not file this form; you do not owe a penalty for underpaying estimated tax.

1. Your gross income from farming and fishing is at least two-thirds of your annual gross income for 1987 or 1988, and
2. You filed Form 1040 and paid the entire tax due by March 1, 1989.

If you meet test (1) but not test (2), use **Form 2210F**, Underpayment of Estimated Tax by Farmers and Fishermen, to see if you owe a penalty. If you do not meet test (1), use Form 2210.

Get **Pub. 505**, Tax Withholding and Estimated Tax, for the definition of gross income from farming and fishing and more information about the penalty.

Waiver of Penalty.—If you have an underpayment on line 20, all or part of the penalty for that underpayment may be waived if any of the following applies:

- An underpayment for any period before April 16, 1989, was attributable to changes made by the technical corrections provisions of the Technical and Miscellaneous Revenue Act of 1988 (Titles I and II),
- The underpayment was due to a casualty, disaster, or other unusual circumstance and it would be inequitable to impose the penalty,
- In 1987 or 1988 you retired after age 62 or became disabled and your underpayment was due to reasonable cause, or
- You own an interest in a partnership or an S corporation, and the underpayment was due to a section 444 election by the partnership or S corporation to use a taxable year other than its required taxable year. **Note:** *The penalty will be waived on the amount of the first quarter underpayment caused by the election. In the required statement, explain that you are eligible for the waiver under "Section III. B. of Notice 88-49," and identify the partnership or S corporation.*

To claim any of the above waivers, write the word "WAIVER" in the bottom margin of page 1. Complete the entire form through line 25 without regard to the waiver provision. Write the amount to be waived in brackets on the dotted line to the left of line 26. Write "Amount waived—$(amount)." Subtract the amount waived from the total of columns 23c, 24c, and 25c. Enter the result on line 26.

Required statement. If you are claiming any of the above waivers, you must attach a statement showing which waiver you are claiming, and a computation of the amount of the penalty to be waived.

Line-by-Line Instructions

Part I—Figuring Your Underpayment

Complete lines 1 through 13 to determine your required installment for each payment due date.

Line 2—Other Taxes.—Enter on this line the following:

- Self-employment tax;
- Alternative minimum tax;
- Tax from recapture of investment credit or low-income housing credit;

- Tax on premature distributions (Form 5329, Part II only);
- Section 72 penalty taxes;
- Excise tax on golden parachute payments;
- Advance earned income credit payments;
- An increase or decrease in tax as a shareholder in a qualified electing fund; and
- Tax on installment sales as a dealer in personal property.

Line 11—1987 Tax.—Figure your 1987 tax using the taxes and credits from your 1987 tax return. Use the same type of taxes and credits as shown on lines 1 through 7 of this form.

If you did not file a return for 1987, or if your 1987 tax year was for less than 12 months, do **not** complete line 11. Instead, enter the amount from line 8 on line 12. However, see the instructions for "Exceptions to the Penalty."

Exception for trusts. A trust with a short taxable year in 1987 should enter on line 11 what would have been the tax had a return been required for a full 12 months in 1987.

Line 13.—If your income varied during the year because, for example, you operated your business on a seasonal basis, you may be able to lower the amount of your required installment for the due dates by using a different method, called the Annualized Income Installment Method. To use this method to figure your required installments, use the worksheet on page 4 of these instructions.

If you use the Annualized Income Installment Worksheet for any payment due date, you must use it for all payment due dates. To arrive at the amount of each required installment, the worksheet automatically selects the smaller of the annualized income installment or the regular installment (increased by the amount saved by using the annualized income installment method in figuring earlier installments).

If you use the worksheet to figure the required installments, enter the amount from line 26 of the worksheet in each column of line 13 of Form 2210. Check the box on line 13, and attach a copy of the worksheet to Form 2210.

Line 14.—Enter the estimated tax payments you made plus any Federal income tax withheld, excess social security tax or railroad retirement tax paid, and any Form 4469 credit (regarding excess hospital insurance benefits) claimed.

In column (a), enter the tax payment(s) you made by April 15, 1988, that were for the 1988 tax year; in column (b), enter payments you made after April 15 through June 15, 1988; in column (c), enter payments you made after June 15 through September 15, 1988; and, in column (d), enter payments after September 15, 1988, through January 15, 1989.

When figuring your payment dates and the amounts to enter on line 14 of each column, apply the following rules:

1. For Federal income tax withheld, excess social security or railroad retirement tax, and Form 4469 credit, you are considered to have paid one fourth of these amounts on each payment due date, unless you can show otherwise.
2. Include in your estimated tax payments any overpayment of tax from your 1987 return that you elected to apply to your 1988 estimated tax.
3. If you file your return and pay the tax due by January 31, 1989, include on line 14, column (d), the amount of tax you pay with your tax return. In this case, you will not owe a penalty for the payment due by January 15, 1989.
4. If you paid estimated tax on January 16 or 17, consider it as having been paid on January 15.

Line 20.—If this line is zero for all payment periods, you do not owe a penalty and need not attach this form unless you used the annualized income installment method. If you have an underpayment, see the instructions under "Waiver of Penalty" on page 1.

Part II—Figuring the Penalty

Figure the penalty by applying the applicable rate against each underpayment shown on line 22. The penalty is figured for the number of days that the underpayment remained unpaid.

The rates are established at various times throughout the year. During 1988, for example, there were 2 rates in effect over 3 periods. Because the 2nd rate period extends into 1989, it must be calculated using 365 days instead of 366. If an underpayment remained unpaid for more than one rate period, the penalty on that underpayment will be figured using more than one rate period.

Each of lines 23 through 25 is used to compute the portion of the penalty attributable to a different rate period. For example, line 23 is used to figure the penalty for the first rate period at 10%. Line 23a is the computation starting date for the first rate period; line 23b is used to figure the number of days the underpayment remained unpaid for the first period; and line 23c is used to compute the actual penalty amount by applying the rate against the underpayment for the number of days it remained unpaid during the first rate period.

Read through the instructions and examples for lines 23 through 25 before completing Part II.

List Your Payments for 1988.—
Before beginning to figure your penalty in Part II, it will be helpful to organize and list the payments you made for 1988 in the manner presented in the tables below.

TABLE 1—Payments after 4/15/88 through 9/30/88

(a) Date	(b) Payments

TABLE 2—Payments after 9/30/88 through 12/31/88

(a) Date	(b) Payments

TABLE 3—Payments after 12/31/88 through 4/15/89

(a) Date	(b) Payments

In each table, list only the payments made during the dates shown in that table heading. Also, apply the following rules:

1. Any withheld Federal income tax, excess social security and railroad retirement tax, and Form 4469 credit should be included. You are considered to have paid one-fourth of these amounts on each payment due date, unless you can show otherwise.

   For example, if you had Federal income tax withheld from your wages of $4,000 during the year, you would list $1,000 as being paid on 6/15/88, 9/15/88, and 1/15/89 in the applicable table. You would not list the withholding attributable to the first payment due date (4/15/88).
2. For Table 3, any balance due of income tax that you pay with your tax return is considered a payment for this purpose and should be listed. Use the date you file your return as the payment date, unless you file late. In that case, use April 15, 1989.

The following instructions will lead you through the procedures for figuring the penalty in Part II.

Figuring the Penalty for Rate Period 1— Column (a), line 23

Line 23b.—Enter on line 23b, column (a) the number of days from 4/15/88 to the date of the first payment listed in Table 1. If no payment was made by 9/30/88, enter "168" on the line (number of days from 4/15 - 9/30).

EXAMPLE 1. Assume you have an underpayment of $5,000 on line 22 and that your first payment in Table 1 was made on April 30 in the amount of $3,000. You would enter "15" on line 23b, column (a) (the number of days from 4/15 to 4/30).

Line 23c.—Make the computation requested on line 23c and enter the result. Note that the line 23c computation calls for the "underpayment on line 22." The amount you use as the "underpayment" depends on the situation as follows:

If there is a payment listed in Table 1, on a separate sheet of paper apply the payment to the underpayment shown on line 22. The "underpayment" for the computation on line 23c will be the amount of the payment that you applied to the line 22 underpayment. If the payment is more than the underpayment, apply only an amount equal to the underpayment and use that amount for the line 23c computation.

EXAMPLE 2. Assume the same facts as in Example 1. Because you paid $3,000 toward the underpayment, this is the amount you use in the line 23c computation as follows: 15/366 × 10% × $3,000, or $12.29.

EXAMPLE 3. Assume your underpayment on line 22 was $5,000 and that you paid $8,000 on April 30. Because your payment was more than your underpayment, you would apply $5,000 to the underpayment and use that amount to figure line 23c as follows: 15/366 × 10% × $5,000 or $20.49.

If there are no payments listed in Table 1, the "underpayment" is the entire underpayment balance because the entire underpayment would have been unpaid for the whole rate period.

EXAMPLE 4. Assume your underpayment on line 22 was $5,000 and that you had no payments listed in Table 1. Because the underpayment remained unpaid for the entire rate period, you would compute the penalty on the underpayment for the entire period. Therefore, you would enter "168" on line 23b (number of days from 4/15–9/30). You would enter $229.51 on line 23c (168/366 × 10% × $5,000).

Determine if You Need To Make Additional Computations.—

Depending on the circumstances described in (a)–(d) below, one of the following will apply next:

- You will need to go to column (b); or
- You will need to figure a penalty amount for the next rate period in this column (lines 24a–24c); or
- You will need to make an additional computation(s) for this rate period on lines 23b and 23c.

a. If the payment was enough to reduce the underpayment to zero, there are no further computations to make for column (a). Figure the penalty for other underpayments, if any, in columns (b)–(d).

b. If there were no payments listed in the table, go to line 24 to figure the penalty for the next rate period.

c. If there is an underpayment balance because the payment did not reduce the underpayment to zero, and you listed no other payments in the table, you will need to make one more computation on lines 23b and 23c. This second computation is to figure the penalty on the underpayment balance; that is, the portion of the underpayment that remained unpaid for the entire rate period. In this case you would enter another number in the entry space for lines 23b and 23c, as follows:

On line 23b, you would enter "168" (number of days from 4/15–9/30). This is the total number of days in the first rate period.

On line 23c, you would make the computation and enter the result. In this case, however, the "underpayment" in the computation is the balance of the underpayment remaining in the period.

EXAMPLE 5. Assume the same facts as in Examples 1 and 2. After applying the $3,000 payment, the underpayment balance is $2,000. Line 23c, therefore, would contain a second entry as follows: 168/366 × 10% × $2,000, or $91.80. You would then go to line 24 to figure the penalty on the underpayment balance for the next period.

d. If there are additional payments listed and the first payment was not enough to reduce the underpayment to zero, you will need to make a separate computation for each payment listed until the underpayment is reduced to zero. If there is still an underpayment balance after applying all of the payments, you will need to figure the penalty on the balance of the underpayment in the same manner as explained in paragraph (b) and Example 5 above.

EXAMPLE 6. Assume that your underpayment on line 22 (column (a)) is $5,000 and that you made two payments: $3,000 on 4/30/88 and $2,000 on 6/20/88.

Line 23b would contain 2 entries in column (a) as follows: "15" (number of days from 4/15– 4/30); and "66" (number of days from 4/15–6/20).

Line 23c would contain 2 entries—"$12.29" (15/366 × 10% × $3,000) and "$36.07" (66/366 × 10% × $2,000).

EXAMPLE 7. Assume your underpayment on line 22, (column (a), is $8,000 and that you made two payments: $3,000 on 4/30/88 and $3,000 on 6/20/88. Lines 23b and c would each contain 3 entries in column (a); one for each payment, and a third for the underpayment balance of $2,000 ($8,000 minus $6,000).

Line 23b would, therefore, contain "15" days (number of days from 4/15 – 4/30); "66" days (number of days from 4/15–6/20); and "168"days (number of days from 4/15 – 9/30.)

Line 23c would contain $12.29, $54.10, and $91.80, computed as follows:
15/366 × 10% × $3,000 (first payment)
66/366 × 10% × $3,000 (second payment)
168/366 × 10% × $2,000 (underpayment balance which remained unpaid for the entire rate period).

You would then figure the penalty for the next rate period on line 24. The penalty would be figured on the remaining $2,000 balance.

Figuring the Penalty for Rate Period 2.— Column (a), Line 24

If there is an underpayment balance remaining after applying any payments in Table 1, figure the penalty attributable to that balance on lines 24b and c. Figure lines 24b and 24c using the same steps as explained for lines 23b and c, except that you use only the payments listed in Table 2.

Line 24b.—Enter on line 24b, column (a), the number of days from 9/30/88 to the date of the first payment listed in Table 2. If no payment was made by 12/31/88, enter "92" (number of days from 9/30–12/31). Also, enter "92" for any underpayment balance remaining unpaid for the entire period.

Line 24c.—Figure line 24c in the same manner as explained for line 23c, except that you use 11% in the computations.

Columns (b)–(c)

In columns (b)–(c), figure the penalty on any underpayment shown on line 22. Figure the penalty for each period in the same manner as in column (a).

Column (b)

Line 23b, Column (b).—Enter the number of days from 6/15/88 to the date of the first payment listed in Table 1 that still has a balance. If no payment is listed or if all the payments have been applied, enter "107."

Line 24b, Column (b).—Enter the number of days from 9/30/88 to the date of the first payment listed in Table 2 that still has a balance. If no payment is listed or if all the payments have been applied, enter "92."

Line 25.—Follow the instructions above for lines 23 and 24, columns (a) through (d) when completing line 25. However, use 365 instead of 366 for the number of days.

Part III—Annualized Income Installment Method

If you do not receive your taxable income evenly throughout the year, it may be to your benefit to figure your required installments (line 13) using the annualized income installment method. For example, an owner of a ski shop, who receives most of his income during the winter months, might benefit by using this method. The annualized income installment may be less than your required installment under the regular method for one or more due dates, thereby lowering or eliminating the penalty for those due dates. Also, see the special instruction that applies for line 13 of Form 2210, if you use the annualized method.

Instructions for Worksheet

Caution: *Estates and trusts with short taxable years, see Notice 87-32 before completing this worksheet.*

Use the worksheet on page 4 to figure your annualized income installment for each due date. **Pub. 505** contains a comprehensive example.

Line 13.—Individuals, if you have self-employment income, use the self-employment tax worksheet on page 4 to figure your self-employment tax for each period. If you have self-employment income and are also a government employee whose wages are subject only to the 1.45% hospital insurance benefits tax (medicare), you must use the self-employment tax worksheet in Pub. 505.

Line 14.—Enter all of the taxes you owed because of events that occurred during the months shown in the column headings.

Include the following:

- The same taxes used to figure line 2 of Form 2210 (except self-employment tax).
- Tax on accumulation distribution of trusts (Form 4970).
- Tax on lump sum distributions from qualified retirement plans (Form 4972).

Figure the alternative minimum tax on **Form 6251,** Alternative Minimum Tax–Individuals, or **Form 8656,** Alternative Minimum Tax–Fiduciaries. Figure alternative minimum taxable income based on your income and deductions during the period shown in the column headings of this worksheet. Multiply your taxes by the annualized amounts shown on line 2 of this worksheet before subtracting the alternative minimum tax exemption amounts.

Line 16.—Enter the credits to which you are entitled because of events that occurred during the months shown in the column headings.

Annualized Income Installment Worksheet— (Complete one column through line 26 before completing the next column.)

(Estates and trusts, do **not** use the period ending dates shown to the right. Instead, substitute the following: 2/29/88, 4/30/88, 7/31/88, and 11/30/88.)		1/1/88 to 3/31/88	1/1/88 to 5/31/88	1/1/88 to 8/31/88	1/1/88 to 12/31/88
(1) Enter your adjusted gross income for each period. (Estates and trusts, enter your taxable income without your exemption for each period.)	1				
(2) Annualization amounts. (Estates and trusts do not use the amounts shown to the right. Instead, substitute the following: 6, 3, 1.71429, and 1.09091.)	2	4	2.4	1.5	1
(3) Annualized income (multiply line 1 by line 2).	3				
(4) Enter your itemized deductions for the period shown in each column. If you do not itemize deductions, enter zero and skip to line 7. (Estates and trusts, enter zero, skip to line 9, and enter the amount from line 3 on line 9.)	4				
(5) Annualization amounts.	5	4	2.4	1.5	1
(6) Annualized itemized deductions. Multiply line 4 by line 5.	6				
(7) Enter your standard deduction from Form 1040, line 34.	7				
(8) Enter line 6 or line 7, whichever is larger.	8				
(9) Subtract line 8 from line 3.	9				
(10) Multiply $1,950 by the total number of exemptions claimed. (Estates and trusts, enter your exemption amount from Form 1041, line 20.)	10				
(11) Subtract line 10 from line 9.	11				
(12) Figure your tax on the amount on line 11 using the Tax Table, Tax Rate Schedule, or Form 8615.	12				
(13) Individuals only, enter your self-employment tax from line 8 of the Self-Employment Tax Worksheet below. (Estates and trusts, enter zero.)	13				
(14) Enter other taxes for each payment period (see instructions).	14				
(15) Total tax. Add lines 12, 13, and 14.	15				
(16) For each period, enter the same type of credits as allowed on Form 2210, lines 1, 4, and 5.	16				
(17) Subtract line 16 from line 15 (total tax after credits). If zero or less, enter zero.	17				
(18) Applicable percentage.	18	22.5%	45%	67.5%	90%
(19) Multiply line 17 by line 18.	19				
(20) Enter the combined amounts of line 26 from all preceding columns.	20	▨			
(21) Subtract line 20 from line 19. If less than zero, enter zero.	21				
(22) Divide line 12, Form 2210, by four (4) and enter the result in each column.	22				
(23) Enter the amount from line 25 of this worksheet for the preceding column.	23	▨			
(24) Add lines 22 and 23 and enter the total.	24				
(25) If line 24 is more than line 21, subtract line 21 from line 24. Otherwise, enter zero.	25				▨
(26) Enter the smaller of line 21 or line 24 here and on Form 2210, line 13.	26				
Self-Employment Tax Worksheet (Individuals only)	▨	▨	▨	▨	▨
(1a) Net self-employment income for the period.	1a				
b Annualized amounts.	1b	4	2.4	1.5	1
c Multiply line 1a by line 1b.	1c				
(2) Limit.	2	$45,000	$45,000	$45,000	$45,000
(3) Enter actual wages subject to social security tax or railroad retirement tax.	3				
(4) Annualization amounts.	4	4	2.4	1.5	1
(5) Multiply line 3 by line 4.	5				
(6) Subtract line 5 from line 2.	6				
(7) Enter the amount from line 1c or line 6, whichever is smaller.	7				
(8) Multiply line 7 by .1302. Also enter this amount on line 13 of the Annualized Income Installment Worksheet above.	8				

Form **2210F**

Department of the Treasury
Internal Revenue Service

Underpayment of Estimated Tax by Farmers and Fishermen

► Attach to Form 1040 or Form 1041.

OMB No. 1545-0140

1988

Attachment Sequence No. 40

Name(s) as shown on tax return

Identifying number

Part I **Figuring Your Underpayment**

1	1988 tax after credits (from Form 1040, line 47 or Form 1041, Schedule G, line 4)			1	
2	Other taxes (see instructions)			2	
3	Add lines 1 and 2			3	
4	Earned income credit	4		▨	▨
5	Credit for Federal tax on fuels	5		▨	▨
6	Add lines 4 and 5			6	
7	Subtract line 6 from line 3			7	
8	Multiply line 7 by 66⅔% (.6667)	8		▨	▨
9	Withholding taxes from 1988 Form 1040, lines 54 and 58 (or Form 1041, line 24e). (Include any credit from Form 4469.)			9	
10	Subtract line 9 from line 7. If the result is less than $500, do not complete the rest of this form. You do not owe the penalty			10	
11	Enter your 1987 tax (see instructions)			11	
12	Enter the smaller of line 8 or line 11			12	
13	Amounts withheld during 1988 and amounts paid or credited by January 15, 1989			13	
14	Underpayment. (Subtract line 13 from line 12. If zero or less, you do not owe a penalty.)			14	

Part II **Figuring the Penalty**

15	Enter the date line 14 was paid or April 15, 1989, whichever is earlier	15	
16	Number of days after January 15, 1989, to and including the date on line 15	16	
17	Penalty. $\frac{\text{Number of days on line 16}}{365}$ × 11% × underpayment on line 14	17	
	Form 1040 filers, enter the amount from line 17 in the space provided on Form 1040, line 65 and check the box on that line. Form 1041 filers, enter the amount from line 17 in the space provided on Form 1041, line 29 and check the box on that line.	▨	▨

Instructions

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	33 min.
Learning about the law or the form	5 min.
Preparing the form	18 min.
Copying, assembling, and sending the form to IRS	14 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to either IRS or the Office of Management and Budget at the addresses listed in the instructions for the tax return with which this form is filed.

Who Should Use This Form.—You may owe a penalty if, for 1988, you did not pay at least 66⅔% of your tax liability for the current year or 100% of your tax liability for the preceding year, whichever is less. If at least two-thirds of your 1987 or 1988 gross income is from farming or fishing, use this form to see if you must pay a penalty for underpaying your estimated tax.

Use Part I to see if you paid enough estimated tax. If not, use Part II to figure the penalty.

However, if you file your return and pay the tax due by March 1, 1989, do not file this form. You do not have to pay a penalty.

You do not have to complete and attach this form to your return if you choose to have IRS compute the penalty. Instead, IRS will bill you for it. If you request a waiver of the penalty, discussed below, complete and attach the form.

For a definition of gross income from farming and fishing, and more information, see **Pub. 505**, Tax Withholding and Estimated Tax.

Note: *You will not have to pay a penalty or complete this form if you had no tax liability for 1987, you were a U.S. citizen or resident for all of 1987, and your 1987 tax return was (or would have been had you been required to file) for a full 12 months.*

Line-by-Line Instructions

Line 2—Other taxes.—Enter on this line the following:

- Self-employment tax;
- Alternative minimum tax;
- Tax from recapture of investment credit or low-income housing credit;
- Tax on premature distributions (Form 5329, Part II, only);
- Section 72 penalty taxes;
- Excise tax on golden parachute payments;
- Advance earned income credit payments;
- An increase or decrease in tax as a shareholder in a qualified electing fund; and
- Tax on installment sales as a dealer in personal property.

Line 11—1987 tax.—Figure your 1987 tax by using your taxes and credits from your 1987 tax return. Use the same type taxes and credits as shown on lines 1 through 7 of this form.

If you did not file a return for 1987 or if your 1987 tax year was for less than 12 months, do not complete this line. Instead, enter the amount from line 8 on line 12. However, see the "Note" under the instructions for **Who Should Use This Form,** above.

Exception for trusts. A trust with a short taxable year in 1987 should enter on line 11 what would have been the tax had a return been required for a full 12 months in 1987.

Line 13.—Enter tax withheld and estimated tax payments made. If you paid estimated tax on January 16 or 17, consider it as having been paid on January 15.

Waiver of penalty.—If you have an underpayment on line 14, all or part of the penalty may be waived if any of the following applies:

- The underpayment was due to a casualty, disaster, or other unusual circumstance and it would be inequitable to impose the penalty,
- In 1987 or 1988 you retired after age 62 or became disabled and your underpayment was due to reasonable cause, or
- An underpayment for any period before April 16, 1989, was attributable to changes made by the technical corrections provisions of the Technical and Miscellaneous Revenue Act of 1988 (Titles I and II).

To claim any of the above waivers, write the amount to be waived in brackets on the dotted line to the left of line 17. Write "Amount waived—$(amount)." Enter the penalty amount (less the amount waived) on line 17.

Attach a statement showing which waiver you are claiming, and a computation of the amount of the penalty to be waived.

Form **2220**
Department of the Treasury
Internal Revenue Service

Underpayment of Estimated Tax by Corporations

▶ **See separate instructions.**
▶ **Attach to your tax return.**

OMB No. 1545-0142

1988

Name

Employer identification number

Part I Figuring Your Underpayment

(**Note:** *In most cases, IRS can figure the penalty for the corporation and you do not have to complete this form. See the separate instructions for more information.*)

1 Total tax (see instructions)			1	
2a Personal holding company tax included in line 1 (Schedule PH (Form 1120), line 15)	2a			
b Credit for Federal tax on fuels	2b			
c Total—Add lines 2a and 2b			2c	
3 Subtract line 2c from line 1. If the result is less than $500, do not complete the rest of this form. You do not owe the penalty.			3	
4a Enter 90% of line 3	4a			
b Enter 100% of the tax shown on your 1987 return (see instructions)	4b			
c Enter the lesser of line 4a or line 4b			4c	

		(a)	(b)	(c)	(d)
5 Enter in columns (a) through (d) the installment due dates (the 15th day of the 4th, 6th, 9th, and 12th months of your tax year) ▶	5				
6 Enter 25% of line 4c in columns (a) through (d) unless **a** or **b** below applies to the corporation: **a** If you use the annualized income installment method and/or the adjusted seasonal installment method, complete the worksheet in the instructions and enter the amount from line 47 in each column of line 6. Also check this box ▶ ☐ and attach a copy of the worksheet to this form. **b** If you are a "large corporation," check this box ▶ ☐ and see the instructions for the amount to enter in each column of line 6	6				
Complete lines 7 through 14 for one column before completing the next column.					
7 Amount paid or credited for each period. (See instructions.) (For column (a) only, enter the amount from line 7 on line 11.)	7				
8 Enter amount, if any, from line 14 of previous column	8				
9 Add lines 7 and 8	9				
10 Add amounts on lines 12 and 13 of the previous column and enter the result	10				
11 Subtract line 10 from line 9. If less than zero, enter zero. (For column (a) only, enter the amount from line 7.)	11				
12 Remaining underpayment from previous period. If the amount on line 11 is zero, subtract line 9 from line 10 and enter the result. Otherwise, enter zero	12				
13 **Underpayment.** If line 11 is less than or equal to line 6, subtract line 11 from line 6 and enter the result. Then go to line 7 of the next column. Otherwise, go to line 14	13				
14 **Overpayment.** If line 6 is less than line 11, subtract line 6 from line 11 and enter the result. Then go to line 7 of the next column	14				

For Paperwork Reduction Act Notice, see separate instructions.

Part II Figuring the Penalty

			(a)	(b)	(c)	(d)
15	Enter the date of payment or the 15th day of the 3rd month after the close of the tax year, whichever is earlier. (*Form 990-PF and 990-T filers:* Use 5th month instead of 3rd month.)	15				
16	Number of days from due date of installment on line 5 to the date shown on line 15	16				
17	Number of days on line 16 after 4/15/88 and before 10/1/88.	17				
18	Number of days on line 16 after 9/30/88 and before 1/1/89	18				
19	Number of days on line 16 after 12/31/88 and before 4/1/89.	19				
20	Number of days on line 16 after 3/31/89 and before 7/1/89	20				
21	Number of days on line 16 after 6/30/89 and before 10/1/89.	21				
22	Number of days on line 16 after 9/30/89 and before 1/1/90	22				
23	Number of days on line 16 after 12/31/89 and before 2/16/90	23				
24	$\frac{\text{Number of days on line 17}}{366}$ × 10% × the underpayment on line 13	24				
25	$\frac{\text{Number of days on line 18}}{366}$ × 11% × the underpayment on line 13	25				
26	$\frac{\text{Number of days on line 19}}{365}$ × 11% × the underpayment on line 13	26				
27	$\frac{\text{Number of days on line 20}}{365}$ × *% × the underpayment on line 13	27				
28	$\frac{\text{Number of days on line 21}}{365}$ × *% × the underpayment on line 13	28				
29	$\frac{\text{Number of days on line 22}}{365}$ × *% × the underpayment on line 13	29				
30	$\frac{\text{Number of days on line 23}}{365}$ × *% × the underpayment on line 13	30				
31	Underpayment penalty (total of lines 24 through 30)	31				
32	Add columns (a) through (d), line 31. Enter here and on line 33, Form 1120; line 29, Form 1120-A; or comparable line for other income tax returns				32	

*If the corporation's tax year ends after December 31, 1988, see the instructions for lines 27 through 30.

1988

Department of the Treasury
Internal Revenue Service

Instructions for Form 2220

Underpayment of Estimated Tax by Corporations

(Section references are to the Internal Revenue Code unless otherwise noted.)

Paperwork Reduction Act Notice

We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	65 hrs.
Learning about the law or the form	1 hr., 44 min.
Preparing the form	4 hrs., 43 min.
Copying, assembling, and sending the form to IRS	32 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to either IRS or the Office of Management and Budget at the addresses listed in the instructions for the tax return with which this form is filed.

Purpose of Form

Corporations, tax-exempt organizations subject to the unrelated business tax, and private foundations use Form 2220 to determine whether they are subject to the penalty for underpayment of estimated tax and, if so, the amount of the penalty.

Changes You Should Note

Revenue Act of 1987

Effective for tax years beginning after 1987, the Revenue Act of 1987 consolidated the corporate estimated tax rules into one section of the Code (section 6655) and made the following modifications to prior law:

- The minimum amount of tax on which the penalty will be imposed has been increased from $40 to $500.
- The amount on which the penalty is imposed with respect to any required installment is limited to the excess of the required installment over the amount of payments received by the installment due date. Except for "large corporations" (see below), the required installment is 25% of the lesser of 90% of the tax shown on the return or 100% of the prior year's tax. A lower required installment may apply if the annualized income installment method or adjusted seasonal installment method is used. Thus, the "cliff" effect of the penalty under prior law has been eliminated.
- A "large corporation" (defined in the instructions for line 6) is permitted to base its first required installment on 100% of the prior year's tax. However, any reduction in the first installment that results from using this provision must be recaptured by increasing the second installment by the amount of such reduction.
- In determining whether a "large corporation" has taxable income of $1 million or more, net operating loss and capital loss carrybacks and carryovers are disregarded.
- The exception to the penalty for paying an amount at least equal to the tax on the prior year's income based on the prior year's facts but using the current year's rates has been eliminated.
- The reduced rate of the penalty for estimated tax payments that are between 80% and 90% of the tax has been eliminated.
- 90% of any reduction in a payment resulting from using the annualized income or adjusted seasonal installment methods must be made up in the next payment if the corporation does not use either of these methods for that next payment.
- Rather than crediting payments of estimated tax first to the amount of the current installment and then to previous underpayments, payments are required to be applied against unpaid installments in the order in which the installments are required to be paid.

Technical and Miscellaneous Revenue Act of 1988

The following additional tax law changes were recently enacted:

- For installment payments due after December 31, 1988, 100% (instead of 90%) of any reduction from using the annualized income or adjusted seasonal installment methods must be made up in the next payment if the corporation does not use either of these methods for that next payment.
- Private foundations and tax-exempt organizations using the annualized income installment method will compute their required installments for certain periods for a period one month shorter than under prior law.
- No penalty will be imposed for any period before March 16, 1989, on any underpayment attributable to changes made by Title I or II of the Technical and Miscellaneous Revenue Act of 1988.

Who Must Pay the Underpayment Penalty

If the corporation did not pay enough estimated tax by any due date for paying estimated tax, it may be charged a penalty. This is true even if the corporation is due a refund when its return is filed. The penalty is figured separately for each installment due date. Therefore, the corporation may owe a penalty for an earlier installment due date, even if it paid enough tax later to make up the underpayment.

Generally, a corporation is subject to the penalty if its tax liability is $500 or more and it did not pay on time the lesser of 90% of its tax liability for 1988, or 100% of its tax liability for 1987 (if it filed a 1987 return showing a tax liability and the return covered a full 12 months). However, a "large corporation" may base only its first required installment on 100% of the prior year's tax liability. A corporation may be able to reduce or eliminate the penalty by using the annualized income or adjusted seasonal installment method.

IRS May Be Able To Figure the Penalty for the Corporation

Generally, you do not have to file this form because IRS can figure the amount of any penalty and bill the corporation for it. However, you must complete and attach this form if:

a. The annualized income installment method and/or the adjusted seasonal installment method is used (see the instructions for line 6),

b. The corporation is a "large corporation" computing its first required installment based on the prior year's tax, or

c. You request a waiver of the penalty as explained in the instructions for line 13 under **Waiver of Penalty.**

How To Use This Form

Complete Part I of Form 2220 to determine if you have an underpayment for any of the four installment due dates. If you have an underpayment on line 13 (column (a), (b), (c), or (d)), go to Part II to figure the penalty. Attach Form 2220 to your income tax return and check the box on line 33, page 1, of Form 1120; line 29 of Form 1120-A; or the comparable line of any other income tax return the corporation is required to file (e.g., Form 990-C, 1120L, etc.).

Part I. Figuring Your Underpayment

Complete lines 1 through 14 in Part I. Follow the instructions below.

Line 1.—Enter the tax from line 31, Form 1120; line 27, Form 1120-A; or the comparable line for other income tax returns (except as noted below).

Filers of Forms 990-PF, 990-T, 1120-REIT, and 1120-RIC. See the instructions for your return for the definition of tax for purposes of the estimated tax provisions.

Line 4b.—Figure your 1987 tax in the same manner as the amount on line 3 of this form was determined, using the taxes and credits from your 1987 tax return. If you did not file a return showing a tax liability for the 1987 tax year, or if your 1987 tax year was for less than 12 months, do not complete this line. Instead, enter the amount from line 4a on line 4c.

Line 6.—

(a) Annualized Income Installment Method or Adjusted Seasonal Installment Method: If the corporation's income varied during the year because, for example, it operated its business on a seasonal basis, it may be able to lower the amount of one or more required installments by using the annualized income installment method or the adjusted seasonal installment method. For example, a ski shop, which receives most of its income during the winter months, might benefit from using one or both of these methods in figuring its required installments. The annualized income installment or adjusted seasonal installment may be less than the required installment under the regular method for one or more due dates, thereby reducing or eliminating the penalty for those due dates.

To use one or both of these methods to figure one or more required installments, use the worksheet on pages 3 and 4 of these instructions. If you use the worksheet for any payment date, you must use it for **all** payment due dates. To arrive at the amount of each required installment, the worksheet automatically selects the smallest of (a) the annualized income installment, (b) the adjusted seasonal installment (if applicable), or (c) the regular installment under section 6655(d) (increased by any reduction recapture under section 6655(e)(1)(B)).

If you are using only the annualized income installment method, complete Parts I and III of the worksheet. If you are using only the adjusted seasonal installment method, complete Parts II and III of the worksheet. If you are using both methods, complete the entire worksheet. Enter in each column on line 6 the amounts from the corresponding column of line 47 of the worksheet. Also attach a copy of the worksheet to Form 2220 and check the box on line 6a.

(b) "Large corporations": A "large corporation" is one that had, or its predecessor had, taxable income of $1 million or more for any of the 3 tax years immediately preceding the tax year involved. For this purpose, taxable income is modified to exclude net operating loss or capital loss carrybacks or carryovers. Members of a controlled group, as defined in section 1563, must divide the $1 million amount among themselves in accordance with rules similar to those in section 1561.

If you are not using the annualized income installment method or adjusted seasonal installment method, follow the instructions below to figure the amount to enter on line 6. Also check the box on line 6b. (If you are using the annualized income installment method and/or the adjusted seasonal installment method, these instructions apply to line 41 of the worksheet.)

If line 4a is less than line 4b: Enter 25% of line 4a in columns (a) through (d).

If line 4b is less than line 4a: In column (a), enter 25% of line 4b. In column (b), determine the amount to enter by: (i) subtracting line 4b from line 4a, (ii) adding the result to the amount on line 4a, and (iii) multiplying the total by 25%. In columns (c) and (d), enter 25% of line 4a.

Line 7.—In column (a), enter the estimated tax payments deposited by the 15th day of the 4th month of your tax year; in column (b), enter payments you made after the 15th day of the 4th month through the 15th day of the 6th month of your tax year; in column (c), enter payments you made after the 15th day of the 6th month through the 15th day of the 9th month of your tax year; and, in column (d), enter payments made after the 15th day of the 9th month through the 15th day of the 12th month of your tax year.

Generally, a prior year's overpayment will be applied against the earliest installment unless the corporation instructs IRS differently. See Rev. Rul. 84-58, 1984-1 C.B. 254.

Line 13.—If line 13 shows an underpayment, complete Part II to figure the penalty.

Waiver of Penalty.—If you have an underpayment on line 13 for any installment due date before March 15, 1989, all or part of the penalty for that underpayment will be waived for the part of the underpayment before March 16, 1989, to the extent the underpayment is attributable to changes made by Title I or II of the Technical and Miscellaneous Revenue Act of 1988 (Act sections 1001 through 2006).

To claim the waiver, write the word "WAIVER" in the bottom margin of page 1. Complete the entire form through line 31 without regard to the waiver provision. Write the amount to be waived in brackets on the dotted line to the left of line 32, as "Amount waived—$(amount)." Subtract the waiver amount from the total of columns (a) through (d), line 31, to arrive at the amount to be entered on line 32. Attach an explanation and a statement showing your computation of the amount of the penalty to be waived.

Part II. Figuring the Penalty

Complete lines 15 through 32 to determine the amount of the penalty. The penalty is figured for the period of underpayment determined under section 6655 at a rate determined under section 6621. For underpayments paid after March 31, 1989, see the instructions for lines 27 through 30.

Line 15.—A payment of estimated tax is applied against underpayments of required installments in the order in which such installments are required to be paid, regardless of which installment the payment pertains to. For example, a corporation has an underpayment for the April 15 installment of $1,000. The June 15 installment requires a payment of $2,000. On June 10, the corporation deposits $2,000 to cover the June 15 installment. However, $1,000 of this payment is considered to be for the April 15 installment. The penalty for the April 15 installment is figured to June 10 (56 days). The underpayment for the June 15 installment will then be $1,000.

If the corporation has made more than one payment for a required installment, attach a separate computation for each payment.

Line 27.—For underpayments paid after March 31, 1989, and before July 1, 1989, a corporation must use an interest rate that the IRS will announce in January 1989.

Line 28.—For underpayments paid after June 30, 1989, and before October 1, 1989, a corporation must use an interest rate that the IRS will announce in April 1989.

Line 29.—For underpayments paid after September 30, 1989, and before January 1, 1990, a corporation must use an interest rate that the IRS will announce in July 1989.

Line 30.—For underpayments paid after December 31, 1989, a corporation must use an interest rate that the IRS will announce in October 1989.

Instructions for Worksheet

Part I—Annualized Income Installment Method

Line 4.—*Filers of Forms 990-PF and 990-T.* The period to be used to figure your taxable income for each column is as follows: Column (a), first 2 months; column (b), first 4 months; column (c), first 7 months; and column (d), first 10 months.

Line 6.—*Filers of Forms 990-PF and 990-T.* The amount by which the amount figured in each column on line 4 is multiplied is as follows: Column (a), 6; column (b), 3; column (c), 1.71429; and column (d), 1.2.

Line 9.—Enter the taxes the corporation owed because of events that occurred during the months shown in the column headings used to figure annualized taxable income. Include the same taxes used to figure line 1 of Form 2220, but do not include the personal holding company tax.

Figure the alternative minimum tax and environmental tax on **Form 4626,** Alternative Minimum Tax—Corporations. Figure alternative minimum taxable income and modified alternative minimum taxable income based on the corporation's income and deductions during the months shown in the column headings used to figure annualized taxable income. Multiply the alternative minimum taxable income and modified alternative minimum taxable income by the annualization amounts used to figure annualized taxable income (on line 2 or line 5) before subtracting the exemption amounts (see sections 55(d) and 59A(a)(2)).

Line 11.—Enter the credits to which you are entitled because of events that occurred during the months shown in the column headings used to figure annualized taxable income.

Line 15.—Before completing line 15 in columns (b) through (d), you must complete line 16; Part II (if applicable); and lines 40 through 47, in each of the preceding columns. For example, you must complete line 16, lines 17 through 39 (if you use the adjusted seasonal installment method), and lines 40 through 47, in column (a) before you can complete line 15 in column (b).

Part II—Adjusted Seasonal Installment Method

Do **not** complete this part unless the corporation's base period percentage for any six consecutive months of the tax year equals or exceeds 70%. The term "base period percentage" for any period of six consecutive months is the average of the three percentages figured by dividing the taxable income for the corresponding six consecutive month period in each of the 3 preceding tax years by the taxable income for each of their respective tax years.

Example: An amusement park that has a calendar year as its tax year receives the largest part of its taxable income during the six-month period from May through October. To compute its base period percentage for the period May through October 1988, it must figure its taxable income for the period May through October in each of the following years: 1985, 1986, and 1987. The taxable income for each May-through-October period is then divided by the total taxable income for the tax year in which the period is included, resulting in the following quotients: .69 for May through October 1985, .74 for May through October 1986, and .67 for May through October 1987. Since the average of .69, .74, and .67 is equal to .70, the base period percentage for May through October 1988 is 70%. Therefore, the amusement park qualifies for the adjusted seasonal installment method.

Line 33.—Enter the taxes the corporation owed because of events that occurred during the months shown in the column headings above line 17. Include the same taxes used to figure line 1 of Form 2220, but do not include the personal holding company tax.

Figure the alternative minimum tax and environmental tax on Form 4626. Figure alternative minimum taxable income and modified alternative minimum taxable income based on the corporation's income and deductions during the months shown in the column headings above line 17. Divide the alternative minimum taxable income and modified alternative minimum taxable income by the amounts shown on line 24 before subtracting the exemption amounts (see sections 55(d) and 59A(a)(2)). Multiply the alternative minimum tax and environmental tax so determined by the amounts shown on line 31.

Line 35.—Enter the credits to which you are entitled because of events that occurred during the months shown in the column headings above line 17.

Line 38.—Before completing line 38 in columns (b) through (d), you must complete lines 39 through 47 in each of the preceding columns. For example, you must complete lines 39 through 47 in column (a) before you can complete line 38 in column (b).

Worksheet to Figure Required Installments Using the Annualized Income or Adjusted Seasonal Installment Methods Under Section 6655(e)

Part I Annualized Income Installment Method

		(a)	(b)	(c)	(d)
		Period			
		▨	First 3 months	First 6 months	First 9 months
(1) Enter your taxable income for each period.	1	▨			
(2) Annualization amounts.	2	▨	4	2	1.33333
(3) Multiply line 1 by line 2.	3	▨			
Form 990-PF and 990-T filers: *Do **not** use the periods shown directly above line 4 or the annualization amounts shown on line 5 when figuring lines 4 and 6. Instead, see the instructions for worksheet lines 4 and 6 to figure these lines.*		Period			
		First 3 months	First 5 months	First 8 months	First 11 months
(4) Enter your taxable income for each period.	4				
(5) Annualization amounts.	5	4	2.4	1.5	1.09091
(6) Multiply line 4 by line 5.	6				
(7) Annualized taxable income. In column (a), enter the amount from line 6, column (a). In columns (b), (c), and (d), enter the **lesser** of the amounts in each column on line 3 or line 6.	7				
(8) Figure your tax on the amount in each column on line 7 using the instructions for Form 1120, Schedule J, line 3 (or the comparable line of your return).	8				
(9) Enter other taxes for each payment period (see instructions).	9				
(10) Total tax. Add lines 8 and 9.	10				
(11) For each period, enter the same type of credits as allowed on Form 2220, lines 1 and 2b (see instructions).	11				
(12) Total tax after credits. Subtract line 11 from line 10. If less than zero, enter zero.	12				
(13) Applicable percentage.	13	22.5%	45%	67.5%	90%
(14) Multiply line 12 by line 13.	14				
(15) Enter the combined amounts of line 47 from all preceding columns (see instructions).	15	▨			
(16) Subtract line 15 from line 14. If less than zero, enter zero.	16				

Part II Adjusted Seasonal Installment Method (Caution: *You may use this method only if the base period percentage for any 6 consecutive months is at least 70%. See the instructions for more information.*)

		(a)	(b)	(c)	(d)
		Period			
		First 3 months	First 5 months	First 8 months	First 11 months
(17) Enter your taxable income for the following periods: **a** Tax year beginning in 1985	17a				
b Tax year beginning in 1986	17b				
c Tax year beginning in 1987	17c				
(18) Enter your taxable income for each period for your tax year beginning in 1988.	18				
		Period			
		First 4 months	First 6 months	First 9 months	Entire year
(19) Enter your taxable income for the following periods: **a** Tax year beginning in 1985	19a				
b Tax year beginning in 1986	19b				
c Tax year beginning in 1987	19c				
(20) Divide the amount in each column on line 17a by the amount in column (d) on line 19a.	20				
(21) Divide the amount in each column on line 17b by the amount in column (d) on line 19b.	21				
(22) Divide the amount in each column on line 17c by the amount in column (d) on line 19c.	22				

		(a)	(b)	(c)	(d)
(23) Add lines 20 through 22.	23				
(24) Base period percentage for months before filing month. Divide line 23 by three (3).	24				
(25) Divide line 18 by line 24.	25				
(26) Figure your tax on the amount on line 25 using the instructions for Form 1120, Schedule J, line 3 (or the comparable line of your return).	26				
(27) Divide the amount in columns (a) through (c) on line 19a by the amount in column (d) on line 19a.	27				
(28) Divide the amount in columns (a) through (c) on line 19b by the amount in column (d) on line 19b.	28				
(29) Divide the amount in columns (a) through (c) on line 19c by the amount in column (d) on line 19c.	29				
(30) Add lines 27 through 29.	30				
(31) Base period percentage for months through and including filing month. Divide line 30 by three (3).	31				
(32) Multiply the amount in columns (a) through (c) of line 26 by the amount in the corresponding column of line 31. In column (d), enter the amount from line 26, column (d).	32				
(33) Enter other taxes for each payment period (see instructions).	33				
(34) Total tax. Add lines 32 and 33.	34				
(35) For each period, enter the same type of credits as allowed on Form 2220, lines 1 and 2b (see instructions).	35				
(36) Total tax after credits. Subtract line 35 from line 34. If less than zero, enter zero.	36				
(37) Multiply line 36 by 90%.	37				
(38) Enter the combined amounts of line 47 from all preceding columns (see instructions).	38				
(39) Subtract line 38 from line 37. If less than zero, enter zero.	39				

Part III Computation of Required Installments

		1st installment	2nd installment	3rd installment	4th installment
(40) If you completed one of the above parts, enter the amounts in each column from line 16 or line 39. (If you completed both parts, enter the lesser of the amounts in each column from line 16 or line 39.)	40				
(41) Divide line 4c, Form 2220, by four (4) and enter the result in each column. (**Note:** *"Large corporations" see line 6(b) instructions on page 2 for the amount to enter.)*	41				
(42) Enter the amount from line 46 of this worksheet for the preceding column.	42				
(43) Add lines 41 and 42 and enter the total. For installments due after December 31, 1988, skip line 44 and enter this total on line 45.	43				
(44) Multiply the amount on line 42 by 10%.	44				
(45) Subtract line 44 from line 43.	45				
(46) If line 43 is more than line 40, subtract line 40 from line 43. Otherwise, enter zero.	46				
(47) Enter the lesser of line 40 or line 45 here and on Form 2220, line 6.	47				

Form **2350**

Department of the Treasury
Internal Revenue Service

Application for Extension of Time To File U.S. Income Tax Return

(For U.S. Citizens and Resident Aliens Abroad Who Expect to Qualify for Special Tax Treatment)

OMB No. 1545-0070

1988

Attachment Sequence No. **58**

Please type or print. **File the original and one copy by the due date for filing your return.**	Name	**Your social security number**
	Present home address (number, street, and apt. no., or rural route). (If you have a P.O. box, see the instructions.)	**Spouse's social security number**
	City or town, state, and ZIP code or country	

If you or your spouse expect to file a gift tax return (Form 709 or 709-A) for 1988, **generally due by April 17, 1989,** see the instructions and check here . . . . **Yourself** ▶ ☐ **Spouse** ▶ ☐

1 I request an extension of time until ______________________ to file my income tax return for the calendar year 1988, or other tax year ending ______________________ because my tax home is in a foreign country and **I expect to qualify for special tax treatment by meeting the test I have checked below:**

a **Bona fide residence test** (see instructions) . . . . ▶ ☐

b **Physical presence test** (see instructions) . . . . ▶ ☐

2 Were you previously granted an extension of time to file for this tax year? . . . . . ☐ Yes ☐ No

3 Will you need additional time to allocate moving expenses? . . . . . ☐ Yes ☐ No

4a Date you first arrived in foreign country ______________________

b Date qualifying period begins ______________________ ends ______________________

c Your foreign home address ______________________

d Date you expect to return to the United States ______________________

Note: *This is not an extension of time for payment of tax. Full payment is required to avoid interest and late payment charges.*

5 Enter the amount of income tax paid with this form . . . . ▶ **5** ______

6 Enter the amount of gift or generation-skipping transfer (GST) tax that:

a You are paying with this form . . . . ▶ **6a** ______

b Your spouse is paying with this form . . . . ▶ **6b** ______

Signature and Verification

Under penalties of perjury, I declare that I have examined this form, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete; and, if prepared by someone other than the taxpayer, that I am authorized to prepare this form.

Signature of taxpayer ▶ ______________________ Date ▶ ______________________

Signature of spouse ▶ ______________________ Date ▶ ______________________

Signature of preparer other than taxpayer ▶ ______________________ Date ▶ ______________________

File original and one copy. IRS will show below whether or not your application is approved and will return the copy.

Notice to Applicant—To Be Completed by IRS

☐ We **HAVE** approved your application. (Please attach this form to your return.)

☐ We **HAVE NOT** approved your application. (Please attach this form to your return.) However, after considering the above information, we have granted a 45-day grace period from the date shown below or due date of your return, whichever is later. This grace period is considered to be a valid extension of time for elections otherwise required to be made on returns filed on time.

☐ We **HAVE NOT** approved your application. After considering the above information, we cannot grant your request for an extension of time to file. (We are not granting the 45-day grace period.)

☐ We cannot consider your application because it was filed after the due date of your return.

☐ Other ______________________

______________ ______________________ By: ______________________
Date Director

If the copy of this form is to be returned to you at an address other than that shown above, or to an agent acting for you, please enter the name of the agent and/or the address where the copy should be sent.

Please Type or Print	Name
	Number and street or P.O. box number (if mail is not delivered to street address)
	City or town, state, and ZIP code

For Paperwork Reduction Act Notice, see back of form.

General Instructions

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: **Recordkeeping,** 13 minutes; **Learning about the law or the form,** 8 minutes; **Preparing the form,** 21 minutes; **Copying, assembling, and sending the form to IRS,** 14 minutes.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to the **Internal Revenue Service,** Washington, DC 20224, Attention: IRS Reports Clearance Officer, TR:FP; or the **Office of Management and Budget,** Paperwork Reduction Project, Washington, DC 20503.

Purpose

Use Form 2350 to ask for an extension to file your tax return if you need the time to meet either the bona fide residence test or the physical presence test that you must meet to qualify for the foreign earned income exclusion and the housing exclusion or deduction.

However, if you file your return after the regular due date, you may not choose to have the IRS figure your tax.

Note: *You may already have 2 extra months to file and pay any tax due (to June 15, 1989, for a 1988 calendar year return) if you were a U.S. citizen or resident out of the country on the due date of your return. For this purpose, "out of the country" means you meet one of the following conditions: (1) You live outside the U.S. and Puerto Rico, AND your tax home is outside the U.S. and Puerto Rico; or (2) You are in military or naval service outside the U.S. and Puerto Rico. You do not have to file a form to get this 2-month extension. But, you will have to attach a statement to your tax return explaining how you qualified.*

If you need more time to file, but do not expect to meet the bona fide residence or physical presence test, file **Form 4868** (the "automatic" extension form). This will give you 4 months beyond the regular due date (or 2 more, if you already had the first 2 because you were out of the country as explained in the **Note** above).

Who Should File

You should file Form 2350 if:

- You are a U.S. citizen or U.S. resident alien; AND
- You expect to qualify for the foreign earned income exclusion and/or the housing exclusion or deduction by meeting either the bona fide residence test or the physical presence test but not until after your Form 1040 is due; AND
- Your tax home is in a foreign country (or countries) throughout your period of bona fide residence or physical presence, whichever applies.

Definitions

Bona fide residence test.—To meet this test, you must be a U.S. citizen and bona fide resident of a foreign country or countries for an uninterrupted period that includes an entire tax year.

Physical presence test.—To meet this test, you must be a U.S. citizen or a U.S. resident physically present in a foreign country or countries for at least 330 full days during any period of 12 months in a row.

Tax home.—Generally, your tax home is your regular or main place of business or post of duty, regardless of where you maintain your family home. If you do not have a regular or main place of business because of the nature of your work, then your tax home is the place where you regularly live.

Foreign country.—A foreign country is a country other than the United States or any of its possessions.

Additional Information

Pub. 54, Tax Guide for U.S. Citizens and Resident Aliens Abroad, gives a detailed discussion of the bona fide residence test, the physical presence test, the foreign earned income exclusion, and the housing exclusion and deduction. You can get Pub. 54 from most U.S. embassies and consulates, or by writing to: Forms Distribution Center, P.O. Box 25866, Richmond, VA 23289.

When To File

File Form 2350 by the due date of your Form 1040. This will usually be June 15, 1989, because of the extra 2 months given certain taxpayers who are out of the country.

Be sure to file Form 2350 early so that if it is not approved, you can still file your tax return on time.

Where To File

Make a copy of Form 2350. ***File both the original AND the copy*** with either:

- The Internal Revenue Service Center, Philadelphia, PA 19255; or
- The local IRS representative or other IRS employee.

Period of Extension

If you are granted an extension, it will generally be to a date 30 days after the date on which you expect to meet either the bona fide residence test or the physical presence test. However, if you must allocate moving expenses (explained in Pub. 54), you may be granted an extension to 90 days after the end of the year following the year you moved to the foreign country.

Note: *An extension of time to file your 1988* ***calendar*** *year Form 1040 also extends time to file a gift tax return* ***(Form 709*** *or* ***709-A)*** *for 1988.*

Filing Your Tax Return

You may file Form 1040 any time before the extended due date. But remember, Form 2350 does not extend the time to pay income, gift, or GST taxes. If you do not pay the amount due by the regular due date (April 15, 1989, for a 1988 calendar year return), you will owe interest. You may also be charged penalties.

Interest.—You will owe interest on the tax not paid by the regular due date of your return. The interest runs until you pay the tax. Even if you had a good reason not to pay on time, you will still owe interest.

Late payment penalty.—Generally, the penalty is ½ of 1% of any tax (other than estimated tax) not paid by the due date (including the 2-month extension for taxpayers who are out of the country). It is charged for each month, or part of a month, that the tax is unpaid. The most you have to pay is 25%. You might not owe this penalty if you have a good reason for not paying on time. Attach a statement to your return explaining the reason.

Late filing penalty.—A penalty is usually charged if your return is filed after the due date (including extensions). It is 5% of the tax not paid by the regular due date (even if an extension of time to pay has been granted) for each month, or part of a month, that your return is late. The most you have to pay is 25%. If your return is more than 60 days late, the penalty will not be less than $100 or the balance of tax due on your return, whichever is smaller. You might not owe the penalty if you have a good reason for filing late. Attach a full explanation to your return if you file late.

Caution: *If we give you more time to file and later find that the statements made on this form are false or misleading, the extension is null and void. You will owe the late filing penalty, explained above.*

How to claim credit for payment made with this form.—When you file Form 1040, show the amount of any income tax payment (line 5) sent with Form 2350. Enter it on line 57 and write "Form 2350" in the space to the left.

Specific Instructions

Name, address, and social security numbers.—Write your name, address, social security number, and spouse's social security number if filing a joint return. If the post office does not bring mail to your street address and you have a P.O. box, enter it instead of your street address.

Gift tax return filers.—If you or your spouse expect to file a gift tax return for 1988, check whichever box applies. If you are sending payment(s) with this form, show the amount(s) on line 6a and/or 6b. However, if your spouse is filing a separate Form 2350, do not check the box for your spouse or complete line 6b.

Your signature.—This form must be signed. If you plan to file a joint return, then both of you should sign. But if there is a good reason why one of you cannot, then the other spouse may sign for both. Attach an explanation as to why the other cannot sign.

Others who can sign for you.—Anyone with a power of attorney can sign. But, the following can sign for you without a power of attorney:

- Attorneys, CPAs, and other persons qualified to practice before the IRS, or
- A person in close business or personal relationship to you who is signing because you cannot. There must be a good reason why you cannot sign. Attach an explanation to the form.

Form **2555**

Department of the Treasury
Internal Revenue Service

Foreign Earned Income

► See separate Instructions. ► Attach to front of Form 1040.

OMB No. 1545-0067

1988

Attachment
Sequence No. 34

For Use by United States Citizens and Resident Aliens Only

Name of taxpayer

Your social security number

Foreign address (including country)

Your occupation

Name of employer ►

Employer's address U.S. ►

Foreign ►

Employer is (check any that apply) ► ☐ A foreign entity ☐ A foreign affiliate of a U.S. company ☐ A U.S. company ☐ Self ☐ Other (specify) ►

Enter earlier years (after 1981) that you filed Form 2555 to claim either of the exclusions ►

If you chose to claim an exclusion in an earlier year (after 1981), have you revoked your choice? . . . . ☐ Yes ☐ No

If "Yes," give the type of exclusion and the tax year for which the revocation was effective ►

Test under which you qualify to claim the exclusion(s) and/or deduction ► ☐ Bona fide residence test (Part I) ☐ Physical presence test (Part II)

Are you a U.S. citizen? . . . . ☐ Yes ☐ No

Did you maintain a separate foreign residence for your family because of adverse living conditions at your tax home? . . . . ☐ Yes ☐ No

If "Yes," give city and country of the separate foreign residence. Also show the number of days during your tax year that you maintained a second household at that address

List your tax home(s) during your tax year and date(s) established

Complete either Part I or Part II. If an item does not apply, write "NA." If you do not provide the information asked for, any exclusion or deduction you claim may be disallowed.

Part I Taxpayers Qualifying Under Bona Fide Residence Test. (See Instructions.)

1 Date bona fide residence began ______________, ended ______________

2 Kind of living quarters in foreign country ► ☐ Purchased house ☐ Rented house or apartment ☐ Rented room ☐ Quarters furnished by employer

3 Did any of your family live with you abroad during any part of the tax year? . . . . ☐ Yes ☐ No

If "Yes," who and for what period? ►

4a Have you submitted a statement to the authorities of the foreign country where you claim bona fide residence that you are not a resident of that country? (See Instructions.) . . . . ☐ Yes ☐ No

b Are you required to pay income tax to the country where you claim bona fide residence? (See Instructions.) . . . ☐ Yes ☐ No

If "Yes" to 4a and "No" to 4b, you do not qualify as a bona fide resident. Do not complete the rest of Part I.

5 Complete the following for days present in the United States or its possessions during the tax year. (Do not include this income in Part III, but report it on Form 1040.)

Date arrived in U.S.	Date left U.S.	Number of days in U.S. on business	Income earned in U.S. on business (attach computation)	Date arrived in U.S.	Date left U.S.	Number of days in U.S. on business	Income earned in U.S. on business (attach computation)

6a State any contractual terms or other conditions relating to the length of your employment abroad

b State the type of visa under which you entered the foreign country

c Did your visa limit the length of your stay or employment in a foreign country? . . . . ☐ Yes ☐ No

If "Yes," attach explanation.

d Did you maintain a home in the United States while living abroad? . . . . ☐ Yes ☐ No

If "Yes," show address of your home, whether it was rented, and the names and relationships of the occupants

For Paperwork Reduction Act Notice, see page 1 of separate Instructions.

Part II Taxpayers Qualifying Under Physical Presence Test. (See Instructions.)

7 The physical presence test is based on the 12-month period from ______________________ through ______________________

8 Enter your principal country of employment during your tax year ▶ ______________________

9 Enter all travel abroad during the 12-month period shown on line 7, except travel between foreign countries that did not involve travel on, or over, international waters, or in, or over, the United States, for 24 hours or more. If the last entry is an arrival in a foreign country, enter the number of full days to the end of the 12-month period. If you have no travel to report during the period, write in the schedule below that you were physically present in a foreign country or countries during the entire 12-month period. (Do not include in Part III the income that you list here, but report it on Form 1040.)

Name of country (including U.S.)	Date arrived	Date left	Full days present in country	Number of days in U.S. on business	Income earned in U.S. on business (attach computation)

Part III All Taxpayers

Note: *On lines 10 through 14 enter all income, including noncash income, that you earned and actually or constructively received during your 1988 tax year for services you performed in a foreign country. If any of the foreign earned income received this tax year was earned in a prior tax year, or will be earned in a later tax year (such as a bonus), see the Instructions. Do not include income from Part I, line 5, or Part II, line 9. Report amounts in U.S. dollars, using the exchange rates in effect when you actually or constructively received the income.*

If you are a cash basis taxpayer, report on Form 1040 all income you received during 1988 no matter when you performed the service.

	1988 Foreign Earned Income				Amount (in U.S. dollars)
10	Total wages, salaries, bonuses, commissions, etc.			10	
11	Allowable share of income for personal services performed (see Instructions for Part III, line 11):				
a	In a business (including farming) or profession			11a	
b	In a partnership (give name, address, and nature of income) ______________________			11b	
12	Noncash income (market value of property or facilities furnished by employer—attach statement showing how determined):			▨	
a	Home (lodging)			12a	
b	Meals			12b	
c	Car			12c	
d	Other property or facilities (specify) ______________________			12d	
13	Allowances, reimbursements, or expenses paid on your behalf for services you performed:				
a	Cost of living and overseas differential	13a		▨	
b	Family	13b		▨	
c	Education	13c		▨	
d	Home leave	13d		▨	
e	Quarters	13e		▨	
f	For any other purpose (specify) ______________________	13f		▨	
g	Add the amounts on lines 13a through 13f and enter the total			13g	
14	Other foreign earned income (specify) ______________________			14	
15	Add the amounts on lines 10 through 12d, line 13g, and line 14 and enter the total			15	
16	Total amount of meals and lodging included on line 15 that is excludable. (See Instructions.)			16	
17	Subtract line 16 from line 15 and enter the result. This is your foreign earned income ▶			17	

Complete Part IV next if you choose to claim the housing exclusion or are claiming the housing deduction. Otherwise, skip to Part V.

Part IV For Taxpayers Claiming Housing Exclusion AND/OR Deduction

18	Qualified housing expenses for the tax year. (See Instructions.)			18		
19	Number of days in your qualifying period that fall within your 1988 tax year. (See Instructions.)	19		▨		
20	Multiply $20.01 by the number of days on line 19. Enter the result, but do not enter more than $7,322.00			20		
21	Subtract the amount on line 20 from the amount on line 18. (If zero or less, do not complete the rest of Part IV or any of Part VII.)			21		
22	Enter employer-provided amounts. (See Instructions.)	22		▨		
23	Enter the amount from line 17	23		▨		
24	Divide the amount on line 22 by the amount on line 23 and enter the result as a decimal (to two places). (Limited to 1.00.)			24	× .	
25	**Housing exclusion.** Multiply the amount on line 21 by the decimal amount on line 24, but do not enter more than the amount on line 22. Also enter this amount on line 35, Part VI ▶			25		

Note: *If the amount on line 21 is* ***more than*** *the amount on line 25, complete line 26. Otherwise, skip to Part V if you choose to claim the foreign earned income exclusion.*

26	Subtract the amount on line 25 from the amount on line 21. Enter the result here and on line 40, Part VII. (Complete Part V before Part VII if you choose to claim the foreign earned income exclusion.) ▶			26		

Part V For Taxpayers Claiming Foreign Earned Income Exclusion

27	Maximum foreign earned income exclusion			27	$70,000	00
28	Number of days in your qualifying period that fall within your 1988 tax year. (See Instructions for line 19.)	28		▨		
29	Divide the number of days on line 28 by the number of days in your 1988 tax year (usually 366) and enter the result as a decimal (to two places)			29	× .	
30	Multiply the amount on line 27 by the decimal amount on line 29			30		
31	Enter the amount from line 17	31		▨		
32	Enter the amount from line 25	32		▨		
33	Subtract the amount on line 32 from the amount on line 31. Enter the result			33		
34	**Foreign earned income exclusion.** Enter here and on line 36, Part VI, the amount from line 30 or line 33, whichever is less ▶			34		

Part VI For Taxpayers Claiming Housing Exclusion, Foreign Earned Income Exclusion, or Both

35	Housing exclusion from line 25	35		▨		
36	Foreign earned income exclusion from line 34	36		▨		
37	Add the amounts on lines 35 and 36 and enter the total			37		
38	Deductions allowed in figuring your adjusted gross income (Form 1040, line 31) that are allocable to the excluded income. (See Instructions and attach computation.)			38		
39	Subtract line 38 from line 37. Enter the result here and in parentheses on Form 1040, line 22. Next to the amount write "Exclusion(s) from Form 2555." On Form 1040 subtract the amount from your income to arrive at total income on Form 1040, line 23 ▶			39		

Part VII For Taxpayers Claiming Housing Deduction

Note: *Complete this part only if: (1) you entered an amount on line 26, and (2) the amount on line 17 is more than the amount on line 37.*

40	Enter the amount from line 26			40		
41	Enter the amount from line 17	41		▨		
42	Enter the amount from line 37	42		▨		
43	Subtract the amount on line 42 from the amount on line 41 and enter the result			43		
44	Enter the amount from line 40 or line 43, whichever is less			44		

Note: *If the amount on line 43 is* ***more than*** *the amount on line 44 and you could not deduct all of your 1987 housing deduction because of the 1987 limitation, complete the worksheet on page 4 of the Instructions to figure how much of your 1987 housing deduction may be carried over to 1988. Otherwise, enter a zero (-0-) on line 45.*

45	Housing deduction carryover from 1987 (from worksheet on page 4 of the Instructions)			45		
46	Add the amounts on lines 44 and 45. Enter here and on Form 1040 to the left of line 30. Next to the amount on Form 1040 write "Deduction from Form 2555." Add it to the total adjustments reported on that line ▶			46		

1988

Department of the Treasury
Internal Revenue Service

Instructions for Form 2555

Foreign Earned Income

(Section references are to the Internal Revenue Code.)

General Instructions

Paperwork Reduction Act Notice. We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	2 hrs., 10 min.
Learning about the law or the form	26 min.
Preparing the form	1 hr., 50 min.
Copying, assembling, and sending the form to IRS	49 min.

If you have comments concerning the accuracy of this time estimate or suggestions for making this form more simple, we would be happy to hear from you. You can write to either IRS or the Office of Management and Budget at the addresses listed in the instructions for Form 1040.

Purpose of Form. If you are a U.S. citizen or a U.S. resident alien living in a foreign country, you are subject to the same U.S. income tax laws that apply to citizens and resident aliens living in the United States. However, if you qualify, use Form 2555 to exclude a limited amount of your foreign earned income. Also use it to claim the housing exclusion or deduction. You may not, however, exclude or deduct more than your foreign earned income for the tax year.

Note: *Specific rules apply to determine whether you are a resident or nonresident alien of the United States. Get* ***Pub. 519,*** *U.S. Tax Guide for Aliens, for details.*

Who Qualifies. You qualify for the tax benefits available to taxpayers who have foreign earned income if you meet the **tax home test** (defined below) **and** you are either:

- A U.S. citizen who is a bona fide resident of a foreign country, or countries, for an uninterrupted period that includes a complete tax year (**bona fide residence test**); or
- A U.S. citizen or a U.S. resident alien who is physically present in a foreign country, or countries, for at least 330 full days during any period of 12 months in a row (**physical presence test**).

Note: *If your only earned income from work abroad is pay you received from the U.S. Government as its employee, you do not qualify for either of the exclusions or the housing deduction. Do* ***not*** *file Form 2555.*

Tax Home Test. Your **tax home** must be in a foreign country, or countries, throughout your period of bona fide residence or physical presence, whichever applies. (For this purpose, your period of physical presence is the 330 full days during which you were present in a foreign country, not the 12 consecutive months during which those days occurred.)

Your **tax home** is your regular or principal place of business, employment, or post of duty, regardless of where you maintain your family residence. If you do not have a regular or principal place of business because of the nature of your trade or business, your tax home is your regular place of abode (the place where you regularly live).

You are not considered to have a tax home in a foreign country for any period during which your abode is in the U.S. However, if you are temporarily present in the U.S., or if you maintain a dwelling in the U.S. (whether or not that dwelling is used by your spouse and dependents), it does not necessarily mean that your abode is in the U.S. during that time.

Example. You are employed on an offshore oil rig in the territorial waters of a foreign country and work a 28-day on/28-day off schedule. You return to your family residence in the U.S. during your off periods. You are considered to have an abode in the U.S. and **do not** satisfy the tax home test. Therefore, you **may not** claim either of the exclusions or the housing deduction.

Foreign Country. A foreign country is any territory (including the air space, territorial waters, seabed, and subsoil) under the sovereignty of a government other than the United States. It does not include U.S. possessions or territories.

Violation of Travel Restrictions. Generally, if you were in a foreign country in violation of U.S. travel restrictions, the following rules apply: (1) any time spent in that country may not be counted in determining if you qualify under the bona fide residence or physical presence test; (2) any income earned in that country is not considered foreign earned income; and (3) any housing expenses in that country (or housing expenses for your spouse or dependents in another country while you were in that country) are not considered qualified housing expenses. U.S. travel restrictions currently apply to Cuba, Kampuchea (Cambodia), Libya, North Korea, and Vietnam.

Additional Information. Pub. 54, Tax Guide for U.S. Citizens and Resident Aliens Abroad, contains more information about the bona fide residence test, the physical presence test, the foreign earned income exclusion, and the housing exclusion and deduction. You can get the publication from most U.S. embassies and consulates, or by writing to:

Forms Distribution Center
P.O. Box 25866
Richmond, VA 23289

Waiver of Time Requirements. If your tax home was in a foreign country and you were a bona fide resident of, or physically present in, a foreign country and had to leave because of war, civil unrest, or similar adverse conditions, the minimum time requirements specified under the bona fide residence and physical presence tests may be waived. You must be able to show that you reasonably could have expected to meet the minimum time requirements if you had not been required to leave. If you left one of the countries listed on page 4 during the period indicated, you can claim the tax benefits on Form 2555, but only for the number of days you were a bona fide resident of, or physically present in, the foreign country.

If you can claim either of the exclusions or the housing deduction because of the waiver of time requirements, attach a statement to your return explaining that you expected to meet the applicable time requirement, but that the conditions in the foreign country prevented you from the normal conduct of business. Also write "Claiming Waiver" in the top margin on page 1 of your 1988 Form 2555.

Where To File. Attach Form 2555 to the front of your Form 1040 and send it to the Internal Revenue Service Center, Philadelphia, PA 19255.

When To File. A 1988 calendar year Form 1040 is generally due April 17, 1989.

However, you are automatically granted a 2-month extension of time to file (to June 15, 1989, for a 1988 calendar year return) if, on the due date of your return, you live outside the U.S. and Puerto Rico, AND your tax home (defined earlier) is outside the U.S. and Puerto Rico. If you take this extension, you must attach a statement to your return explaining that you meet these two conditions.

The automatic 2-month extension also applies to paying the tax. However, interest is charged on the unpaid tax from the regular due date (April 15 for a calendar year return) until it is paid.

Special Extension of Time. If you plan to take the foreign earned income exclusion and/or the housing exclusion or deduction, but do not expect to qualify until after the end of the automatic 2-month extension period described above, you may apply for an extension to a date after you expect to qualify.

To apply for this extension, complete and file **Form 2350**, Application for Extension of Time To File U.S. Income Tax Return, with the Internal Revenue Service Center, Philadelphia, PA 19255, before the due date of your return. Interest is charged on the tax not paid by the regular due date as explained above.

Choosing the Exclusion(s). To choose either of the exclusions, complete the appropriate parts of Form 2555 and file it with your Form 1040 or **Form 1040X,** Amended U.S. Individual Income Tax Return.

Once you choose to claim an exclusion, that choice remains in effect for that year and all future years unless it is revoked. If you revoke your choice, however, you may not claim the exclusion(s) for your next 5 tax years without the approval of the Internal Revenue Service. See Pub. 54 for more information.

Earned Income Credit. You will not qualify for the earned income credit if you claim either of the exclusions or the housing deduction.

Specific Instructions

Part I

Bona Fide Residence Test. To qualify under this test, you must be a U.S. citizen who is a bona fide resident of a foreign country, or countries, for an uninterrupted period that includes a **complete tax year** (January 1–December 31, if you file a calendar year return).

No specific rule determines whether you are a bona fide resident of a foreign country, because the determination involves your intention about the length and nature of your stay. Evidence of your intention may be your words and acts. If these conflict, your acts carry more weight than your words. Generally, if you go to a foreign country for a definite, temporary purpose and return to the United States after you accomplish it, you are not a bona fide resident of the foreign country. If accomplishing the purpose requires an extended, indefinite stay, and you make your home in the foreign country, you may be a bona fide resident. See Pub. 54 for more information and examples.

Lines 4a and b. If you submit a statement to the authorities of a foreign country in which you earned income that you are not a resident of the country, and the authorities hold that you are not subject to their income tax laws as a resident, you are not considered a bona fide resident of that country.

If you submit such a statement and the authorities have not made an adverse determination of your nonresident status, you are not considered a bona fide resident of that country.

Part II

Physical Presence Test. To qualify under this test, you must be a U.S. citizen or resident alien who is physically present in a foreign country, or countries, for at least 330 **full days** during any period of 12 months in a row.

To figure the minimum of 330 full days' presence, add all separate periods you were present in a foreign country during the 12-month period shown on line 7. The 330 full days may be interrupted by periods when you are traveling over international waters or are otherwise not in a foreign country. See Pub. 54 for more information and examples.

Full Day. A full day means the 24-hour period that starts at midnight.

Note: *A nonresident alien who, with a U.S. citizen or U.S. resident alien spouse, chooses to be taxed as a resident of the United States may qualify under this test if the time requirements are met. See Pub. 54 for information on how to make this choice.*

Part III

Enter in this part the total foreign earned income you **earned and received** (including income constructively received) during the tax year. If you are a cash basis taxpayer, however, report on Form 1040 all income you received during the tax year regardless of when you earned it.

Income is earned in the tax year you perform the services for which you receive the pay. However, if you are a cash basis taxpayer and, because of your employer's payroll periods, you received your last salary payment for 1987 in 1988, that income may be treated as earned in 1988. If you cannot treat that salary payment as income earned in 1988, the rules explained later under **Income Earned in Prior Year** apply. See Pub. 54 for more information.

Foreign earned income for this purpose means wages, salaries, professional fees, and other compensation received for personal services you performed in a foreign country during the period for which you meet the tax home test and either the bona fide residence test or the physical presence test. It also includes noncash income (such as a home or car) and allowances or reimbursements.

Foreign earned income does not include amounts that are actually a distribution of corporate earnings or profits rather than a reasonable allowance as compensation for your personal services. It also does not include:

- Pension and annuity income (including social security and railroad retirement benefits treated as social security);
- Interest, dividends, capital gains, alimony, etc.;
- Portion of 1987 moving expense deduction allocable to 1988 that is included in your 1988 gross income (see **Recapture of moving expense deduction** in the instructions for Form 3903F or under **Moving Expenses** in Pub. 54 for details);
- Amounts paid to you by the U.S. Government or any of its agencies if you are an employee of the U.S. Government or any of its agencies;
- Amounts received after the end of the tax year following the tax year in which you performed the services; or
- Amounts you must include in gross income because of your employer's contributions to a nonexempt employees' trust or to a nonqualified annuity contract.

Note: *A special rule applies to certain employer contributions made to a pension plan before 1963. See* ***Pensions and annuities*** *under* ***Foreign Earned Income*** *in Pub. 54. In addition, if you received income in 1988 for services performed before 1963, you may be able to exclude the income if a right to receive it existed on March 12, 1962. For more information, write to:*

Internal Revenue Service
Attn: IN:C:TPS
950 L'Enfant Plaza South, S.W.
Washington, DC 20024

Income Received in Prior Year. Foreign earned income received in 1987 for services you performed in 1988 may be excluded from your 1987 gross income if, and to the extent, the income would have been excludable if you had received it in 1988. To claim the additional exclusion, you must amend your 1987 tax return. To do this, file Form 1040X.

Income Earned in Prior Year. Foreign earned income received in 1988 for services you performed in 1987 may be excluded from your 1988 gross income if, and to the extent, the income would have been excludable if you had received it in 1987. Do not include this income in Part III.

If you are excluding income under this rule, attach a statement to Form 2555 showing how you figured the exclusion. Enter the amount that would have been excludable in 1987 on Form 2555 to the left of line 39. Next to the amount write "Exclusion of Income Earned in 1987." Include it in the total reported on line 39.

Note: *If you claimed any deduction, credit, or exclusion on your 1987 return that is definitely related to the 1987 foreign earned income you are excluding under this rule, you may have to amend your 1987 income tax return to adjust the amount you claimed. To do this, file Form 1040X.*

Line 11. If you engaged in an unincorporated trade or business in which both personal services and capital were material income-producing factors, a reasonable amount of compensation for your personal services will be considered earned income. The amount treated as earned income, however, may not be more than 30% of your share of the net profits from the trade or business.

If capital is not an income-producing factor and personal services produced the business income, the 30% rule does not apply. Your entire gross income is earned income.

Line 16. Enter on this line the value of meals and/or lodging furnished by, or on behalf of, your employer for his or her convenience that is excludable from your income under section 119. See Pub. 54 for conditions under which you may exclude the value of meals and lodging.

Part IV

If you are claiming the housing exclusion or deduction **and** the foreign earned income exclusion, complete this part before Part V.

Line 18. Enter the total reasonable expenses paid or incurred during the tax year by you, or on your behalf, for your foreign housing and the housing of your spouse and dependents if they lived with you. You may also include the reasonable expenses of a **second foreign household** (defined later). Housing expenses are considered reasonable to the extent they are not lavish or extravagant under the circumstances.

Housing expenses include rent, utilities (other than telephone charges), real and personal property insurance, nonrefundable fees paid to obtain a lease, rental of furniture and accessories, residential parking, and household repairs. You may also include the fair rental value of housing provided by your employer if you have not excluded it on line 16, Part III.

Do not include deductible interest and taxes, any amount deductible by a tenant-stockholder in connection with cooperative housing, the cost of buying or improving a house, principal payments on a mortgage, or depreciation on the house. Also do not include the cost of domestic labor, pay television, or the cost of buying furniture or accessories.

Include expenses for housing only during periods for which:

- The value of your housing is not excluded from gross income under section 119 (unless you maintained a second foreign household); and
- You meet the tax home test and either the bona fide residence test or physical presence test.

Second Foreign Household. If you maintained a separate foreign household for your spouse and dependents at a place other than your tax home because the living conditions at your tax home were dangerous, unhealthful, or otherwise adverse, you may include the expenses of the second household on line 18.

Married Couples. If both you and your spouse qualify for the tax benefits of Form 2555, you each may choose to exclude or deduct part of your foreign housing expenses.

If you and your spouse lived in the same foreign household and file a joint return, the total qualified expenses for the household may be claimed on either your Form 2555 or your spouse's Form 2555. However, if you and your spouse have different periods of residence or presence and the one with the shorter period claims the expenses on his or her Form 2555, only the qualified expenses paid or incurred during the shorter period may be claimed. If you file separate returns, the total qualified housing expenses may either be claimed on your Form 2555 or your spouse's Form 2555, or you each may claim part of the expenses on your separate Forms 2555.

If you and your spouse lived in separate foreign households, you each may claim the qualified expenses for your own household on your separate Forms 2555 only if: (1) your tax homes **were not** within a reasonable commuting distance of each other; and (2) each spouse's household **was not** within a reasonable commuting distance of the other spouse's tax home. This is true even if you and your spouse file a joint return. If the requirements in (1) and (2) above are not met, only one of you may claim the housing exclusion or deduction. This is true even if you and your spouse file separate returns. If your spouse qualifies for, but does not claim, a housing exclusion or deduction, you may include on your Form 2555 the qualified expenses of your spouse's household if the home qualifies as a **second foreign household**.

Line 19. Enter on this line the number of days in your qualifying period that fall within your 1988 tax year. Your qualifying period is the period during which you meet the tax home test and either the bona fide residence test or the physical presence test.

Example. You establish a tax home and bona fide residence in a foreign country on August 14, 1988. You maintain the tax home and residence until January 31, 1990. You are a calendar year taxpayer. The number of days in your qualifying period that fall within your 1988 tax year is 140 (August 14 through December 31, 1988).

Nontaxable U.S. Government Allowances. If you or your spouse received a nontaxable housing allowance as a military or civilian employee of the U.S. Government, see Pub. 54 for information on how that allowance may affect your housing exclusion or deduction.

Line 22. Any amount your employer paid or incurred on your behalf that is foreign earned income included in your gross income for the tax year (without regard to section 911) should be entered on this line.

Examples of employer-provided amounts are:

- Wages and salaries received from your employer;
- The fair market value of compensation provided in kind (such as the fair rental value of lodging furnished by your employer as long as it is not excluded on line 16, Part III);
- Rent paid by your employer directly to your landlord; and
- Amounts paid by your employer to reimburse you for housing expenses, educational expenses of your dependents, or as part of a tax equalization plan.

Self-Employed Individuals. If all of your foreign earned income (Part III) is self-employment income, skip lines 22 through 24 and enter a zero on line 25.

Part V

If you choose to claim the foreign earned income exclusion, complete this part to figure the amount of your exclusion.

Married Couples. If both you and your spouse qualify for, and choose to claim, the foreign earned income exclusion, the amount of the exclusion is figured separately for each of you. You each must complete Part V of your separate Forms 2555.

Community Income. The amount of the exclusion is not affected by the income-splitting provisions of community property laws. The sum of the amounts figured separately for each of you is the total amount excluded on a joint return.

Part VI

If you claim either of the exclusions, you may not claim any deduction (including moving expenses), credit, or exclusion that is definitely related to the excluded income. If only part of your foreign earned income is excluded, you must prorate such items based on the ratio that your excludable earned income bears to your total foreign earned income. See Pub. 54 for information on how to figure the amount allocable to the excluded income.

The exclusion under section 119 and the housing deduction are **not** considered definitely related to the excluded income.

Line 38. Report in full on Form 1040 and related forms and schedules all deductions allowed in figuring your adjusted gross income (Form 1040, line 31). Enter on line 38 the total amount of those deductions that are not allowed because they are allocable to the excluded income. See Pub. 54 for information on how to report your itemized deductions that are allocable to the excluded income (such as unreimbursed employee business expenses).

IRA Deduction. The IRA deduction is not definitely related to the excluded income. However, special rules apply in figuring the amount of an employee's IRA deduction. For details, see **Pub. 590,** Individual Retirement Arrangements (IRAs).

Foreign Taxes. You may not take a credit or deduction for foreign income taxes paid or accrued on income that is excluded under either of the exclusions.

If all of your foreign earned income is excluded, you may not claim a credit or deduction for the foreign taxes paid or accrued on that income.

If only part of your income is excluded, you may not claim a credit or deduction for the foreign taxes allocable to the excluded income. See **Pub. 514**, Foreign Tax Credit for Individuals, for information on how to figure the amount allocable to the excluded income.

Part VII

If an amount is entered on line 26, Part IV, complete Part VII to figure your housing deduction. Also complete this part to figure your housing deduction carryover from 1987.

One-Year Carryover. If line 40 is **more** than line 43, you may carry the difference over to your 1989 tax year. If, because of the 1989 limitation, you cannot deduct the excess in 1989, you may not carry it over to any future tax year.

Housing Deduction Carryover Worksheet

1. Enter the amount from your 1987 Form 2555, line 40 . . . ______

2. Enter the amount from your 1987 Form 2555, line 44 . . . ______

3. Subtract line 2 from line 1. If line 3 is zero, stop here. You do not have any housing deduction carryover from 1987. Enter zero (-0-) on line 45 . . . . ______

4. Enter the amount from your 1988 Form 2555, line 43 . . . ______

5. Enter the amount from your 1988 Form 2555, line 44 . . . ______

6. Subtract the amount on line 5 from the amount on line 4 . . ______

7. Compare the amounts on lines 3 and 6. Enter the **smaller** of the two amounts here and on line 45 of your 1988 Form 2555. If line 3 is more than line 6, you may **not** carry the difference over to any future tax year . . . . ▶ ______

List of Qualifying Countries and Time Periods—Waiver of Time Requirements

	Time Periods		
Country	*Beginning*	*and*	*Ending*
Afghanistan	April 23, 1979		(Still in effect)
Burma	September 9, 1988		(Still in effect)
Colombia	November 13, 1984		April 25, 1988
El Salvador	September 24, 1979		July 31, 1988
Haiti	April 30, 1987		February 26, 1988
Iran	September 1, 1978		(Still in effect)
Iraq	August 31, 1979		January 1, 1987
Lebanon	August 31, 1979		(Still in effect)
Peru	July 3, 1986		April 2, 1988
Sudan	October 17, 1985		November 26, 1986
Uganda	July 29, 1985		April 7, 1986

Form **3468**

Department of the Treasury
Internal Revenue Service

Computation of Investment Credit

▶ **Attach to your tax return.**

▶ **Schedule B (Business Energy Investment Credit) on back.**

OMB No. 1545-0155

1988

Attachment Sequence No. 52

Name(s) as shown on return

Identifying number

Part I Elections (Check the box(es) below that apply to you (See Instruction D).)

A I elect to increase my qualified investment by all qualified progress expenditures (QPE) made this and all later tax years ☐
Enter total qualified progress expenditures included in column (4), Part II ▶

B I claim full credit on certain ships under section 46(g)(3) (See **Instruction B** for details) ☐

Part II Qualified Investment (Certain Transition Property, QPE Property, and Qualified Timber Property)

1 Recovery Property		Line	(1) Class of Property	(2) Cost or Other Basis	(3) Applicable Percentage	(4) Qualified Investment (Column 2 x column 3)
Regular Percentage	New Property	(a)	3-year		60	
		(b)	Other		100	
	Used Property	(c)	3-year		60	
		(d)	Other		100	

2 Nonrecovery property—Enter total qualified investment (See instructions for line 2)	2	
3 **Total qualified investment in 10% property**—Add lines 1(a) through 1(d), column (4), and line 2 (See instructions for special limits)	3	
4 Regular credit—(See instructions for line 4 for amount to enter)	4	
5 Qualified rehabilitation expenditures (enter qualified investment and multiply by percentage shown):	▨	
a **Transition Property** and **Certain Projects:**		
(i) 30-year-old buildings ________ × 10%	5a*(i)*	
(ii) 40-year-old buildings ________ × 13%	5a*(ii)*	
(iii) Certified historic structures (attach NPS certificate) ________ × 25%	5a*(iii)*	
b **Rehabilitation Property** (not shown above):	▨	
(i) Pre-1936 buildings ________ × 10%	5b*(i)*	
(ii) Certified historic structures (attach NPS certificate) ________ × 20%	5b*(ii)*	
6 Credit from cooperatives—Enter regular investment credit from cooperatives	6	
7 Business energy investment credit—From line 6 of Schedule B (see back of this form)	7	
8 Current year investment credit—Add lines 4 through line 7	8	

Note: *If you have a 1988 jobs credit (Form 5884), credit for alcohol used as fuel (Form 6478), research credit (Form 6765), or low-income housing credit (Form 8586) in addition to your 1988 investment credit, or if you have a carryback or carryforward of any general business credit, stop here and go to* ***Form 3800,*** *General Business Credit, to claim your 1988 investment credit. If you have only a 1988 investment credit (which may include business energy investment credit), you may continue with lines 9 through 16 to claim your credit.*

Part III Tax Liability Limitations

9a Individuals—From Form 1040, enter amount from line 40 **b** Corporations—From Form 1120, Schedule J, enter tax from line 3 (or Form 1120-A, Part I, line 1) **c** Other filers—Enter income tax before credits from return	9	
10a Individuals—From Form 1040, enter credits from lines 41, 42, and 43, plus any orphan drug credit, mortgage interest credit, and nonconventional source fuel credit included on line 46 **b** Corporations—From Form 1120, Schedule J, enter credits from lines 4a through 4d (Form 1120-A filers, enter zero) **c** Other filers—See instructions for line 10c	10	
11 Income tax liability as adjusted (subtract line 10 from line 9)	11	
12 Tentative minimum tax— **a** Individuals—From Form 6251, enter amount from line 17 **b** Corporations—From Form 4626, enter amount from line 13 **c** Estates and Trusts—From Form 8656, enter amount from Part III, line 10	12	
13 Net income tax— **a** Individuals—Enter the sum of line 11, above, and line 19 of Form 6251 **b** Corporations—Enter the sum of line 11, above, and line 16 of Form 4626 **c** Other filers—See instructions for line 13c	13	
14 If line 11 is more than $25,000—Enter 25% of the excess (see Instructions)	14	
15 Enter—Line 13 less whichever is greater, line 12 or line 14. (If the result is less than zero, enter zero.)	15	
16 Total allowed credit—Enter the smaller of line 8 or line 15 (corporations, see instructions)—This is your **General Business Credit** for 1988. Enter here and on Form 1040, line 44; Form 1120, Schedule J, line 4e; Form 1120-A, Part I, line 2a; or the proper line of other returns	16	

For Paperwork Reduction Act Notice, see separate instructions.

Schedule B.—Business Energy Investment Credit

1 Enter on lines 1(a) through 1(e) your qualified investment in business energy property.

Type of Property	Line	(1) Class of Property or Life Years	(2) Code	(3) Basis	(4) Applicable Percentage	(5) Qualified Investment (Column 3 x column 4)
Recovery	**(a)**	3-year			60	
	(b)	Other			100	
Nonrecovery	**(c)**	3 or more but less than 5			33 ⅓	
	(d)	5 or more but less than 7			66 ⅔	
	(e)	7 or more			100	

2	Total qualified investment—Add lines 1(a) through 1(e), column (5)	2	
3	Multiply the portion of the line 2 amount attributable to the following types of property by the applicable percentages:		
a	Solar energy property (10%)	3a	
b	Geothermal property (10%)	3b	
c	Ocean thermal property (15%)	3c	
4	Certain other property (See instructions below for special limits):		
a	Certain long-term section 46(b)(2)(C) projects under way by 12-31-82 (10%)	4a	
b	Hydroelectric generating property placed in service by 12-31-88 (if docketed with the Federal Energy Regulatory Commission by 12-31-85) (11%)	4b	
5	Cooperative credit—Enter business energy investment credit from cooperatives	5	
6	Tentative business energy investment credit— Add lines 3a through 5. Enter here and on line 7 of page 1	6	

Instructions for Schedule B (Form 3468)

Items You Should Note

The business energy investment credit for solar energy property, geothermal property and ocean thermal property scheduled to expire on December 31, 1988, has been extended until December 31, 1989. See section 46(b)(2)(A) for details.

Energy property must meet the same requirements as regular investment credit property, except that the provisions of sections 48(a)(1) and 48(a)(3) do not apply. See the separate Instructions for Form 3468 for definitions and rules regarding regular investment credit property.

Energy property must be acquired new. See sections 46(b)(2) and 48(l)(1) through (17) for details.

See section 48(l)(17) for special rules on public utility property, and section 48(l)(11) for special rules on property financed by Industrial Development Bonds.

Specific Instructions

One Credit Only.—If property qualifies as more than one kind of energy property, you may take only one credit for the property.

Line 1—Type of Property.— For definition of recovery and nonrecovery property, see the separate Instructions for Form 3468.

Line 1—Column (2).—Use the code letters from the following list to indicate the kind of property for which you are claiming a credit. If you enter more than one kind of property on a line, enter the code letter for each kind of property in column (2) and the code letter and dollar amount of each kind of property in the right hand margin.

The code letters are:

a. Hydroelectric generating property
b. Solar equipment (but not passive solar equipment)
c. Ocean thermal equipment
d. Geothermal equipment

See sections 48(l)(4) and 48(l)(3)(A)(viii) and (ix) for definitions and special rules that apply to these kinds of property.

Line 4.—You must reduce the basis for depreciation by the full amount of the credit claimed.

If the installed capacity of hydroelectric generating property is more than 25 megawatts, the 11% energy credit is allowed for only part of the qualified investment. See section 48(l)(13)(C).

On the dotted line for line 4b, enter the megawatt capacity of the generator as shown on the nameplate of the generator.

You must reduce the energy credit(s) on lines 4a and 4b by 35%. *Enter the reduced credit on these lines.*

If you use **all** of the reduced credit in the current year, then none of the reduction may be carried to any other year.

If you are able to use **only a portion** of the reduced credit in the current year because you are limited by the tax liability limitations, then you may carry forward to your next year the unused portion of the reduced credit and a corresponding portion of the 35% reduction. If, for example, you are able to use half of the reduced credit in 1988, then you may carry forward the other half of the reduced credit and half of the reduction.

If you are **not** able to use **any** of the reduced credit because of the tax liability limitations, then you may carry forward to your next year the entire credit (both the reduced credit and the reduction).

1988 Department of the Treasury
Internal Revenue Service

Instructions for Form 3468

Computation of Investment Credit

(Section references are to the Internal Revenue Code unless otherwise noted.)

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	20 hrs., 34 min.
Learning about the law or the form	8 hrs., 19 min.
Preparing the form	12 hrs., 45 min.
Copying, assembling, and sending the form to IRS	1 hr., 4 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to either IRS or the Office of Management and Budget at the addresses listed in the instructions of the tax return with which this form is filed.

Items You Should Note

You cannot claim any investment credit for property placed in service after December 31, 1985, unless the property is:

- Transition property, as defined in the Specific Instructions for lines 1(a)–1(d);
- Qualified progress expenditure property, as defined in General Instructions D(1) under "Elections," and the Specific Instructions for lines 1(a)–1(d);
- Qualified timber property;
- Certain rehabilitation property; or
- Business energy property.

For most taxpayers, this means you may no longer claim any investment credit for property such as automobiles, delivery trucks, office equipment, farm equipment, etc.

General Business Credit.—The general business credit consists of the investment credit (Form 3468), jobs credit (Form 5884), credit for alcohol used as fuel (Form 6478), research credit (Form 6765), and low-income housing credit (Form 8586). If you have more than one of these credits for 1988, or a carryback or carryforward of any of these credits, you must summarize them on **Form 3800**, General Business Credit. If you have only a 1988 investment credit, you do not have to file Form 3800 this year.

General Instructions

A. Purpose of Form.—Use Form 3468 to claim a regular, rehabilitation, or business energy investment credit or to make certain elections.

Caution: *You may have to refigure the credit and recapture all or a portion of it if:*

- you dispose of the property before the end of the property class life or life years;
- you change the use of the property;
- the business use of the property decreases so that it no longer qualifies (in whole or in part) as investment credit property;
- you reduce your proportionate interest in a partnership or other "pass-through" entity that had claimed a credit; or
- you returned leased property (on which you had taken a credit) to the lessor before the end of the recapture period or useful life.

For more information, see **Form 4255,** Recapture of Investment Credit.

A partnership or S corporation should complete only the following lines, to figure the cost or basis of property to pass through to the individual partners or shareholders:

- the Part I elections,
- columns (2) of line 1 and the line 2 worksheet,
- the qualified investment on line 5, and
- columns (2) and (3) for line 1, Schedule B (you should also tell the partner, etc., how much of the column (3) basis to enter on lines 3 or 4).

Attach the completed form to the partnership or S corporation return to show the total cost or basis that is passed through.

If you are a partner, beneficiary, shareholder in an S corporation, or lessee, use Form 3468 to figure the credit based on your share of the investment by the partnership, estate, trust, S corporation, or lessor.

For more details on investment credit, see **Publication 572,** General Business Credit, and regulations under sections 46 and 48.

B. How to Figure the Credit.—For recovery property, the class of property determines the percentage qualifying for investment credit. For nonrecovery property, the useful life of the property for investment credit must be the same as the useful life for depreciation or amortization.

See section 48 for special rules on movie and television films, sound recordings, and sale-leasebacks.

See section 46(e) for limitations on the investment credit for mutual savings institutions, regulated investment companies, and real estate investment trusts.

Generally, you may only take half of the regular credit for certain vessels. See sections 46(g)(1) through (6). If you claim the full credit, check box B in Part I of Form 3468.

C. Investment Credit Property.—You may take investment credit for property placed in service only if it qualifies as one of the items listed above under "Items You Should Note."

The property must be used in a trade or business and be either recovery property or other depreciable property with a life of 3 years or more. Enter only the business part if property is for both business and personal use.

Exceptions.—Investment credit generally does not apply to property that is:

(1) Used mainly outside the U.S.

(2) Used by a tax-exempt organization (other than a section 521 farmers' cooperative) unless the property is used mainly in an unrelated trade or business.

(3) Used by governmental units and foreign persons and entities.

(4) Used for lodging or for furnishing the lodging (see section 48(a)(3) for exceptions, *i.e.*, hotel or motel furnishings).

(5) Amortized or depreciated under section 167(k), 184, or 188.

(6) Acquired or constructed with "excluded cost-sharing payments" from grants under any program listed in section 126(a) or by grants under the Energy Security Act.

D. Elections.—

(1) Qualified Progress Expenditures.—You may elect under section 46(d) to increase your qualified investment for the year by qualified progress expenditures. This permits you to claim investment credit on a long-term construction project before it is completed and placed in service. Check box A in Part I. The election applies to all progress expenditure property for the tax year it is made and all later tax years.

In general, "progress expenditure property" means property which is being constructed by or for you and (1) construction began before 1986 (or you had a binding contract on 12-31-85 to begin construction), (2) the property has a normal construction period of two years or more, and (3) it is reasonable to believe that it will be new section 38 property when it is placed in service.

(2) Election for Leased Property.—If you lease property to someone else, you may elect to treat all or part of your investment in new property as if it were made by the person who is leasing it from you. Lessors and lessees should see section 48(d) and related regulations for rules on making this election. For limitations, see sections 46(e)(3) and 48(d)(6).

E. At-Risk Limitation for Individuals and Closely Held Corporations .—The cost or basis of property for investment credit purposes may be limited if you borrowed against the property and are protected against loss, or if you borrowed money from a person who is related or who has other than a creditor interest in the business activity. The cost or basis must be reduced by the amount of this "nonqualified nonrecourse financing" related to the property as of the close of the tax year in which it is placed in service. See Publication 572 and sections 46(c)(8) and 465 for details. If there is an increase during a later year of this nonqualified nonrecourse financing, you may have to refigure the credit on Form 4255.

Specific Instructions

Part II.—Qualified Investment

Lines 1(a)–1(d). Recovery Property.—The regular investment tax credit is not allowed for property placed in service after December 31, 1985. The only properties for which you can claim a regular credit are (1) transition property, (2) qualified progress expenditure (QPE) property, and (3) qualified timber property.

Transition Property.—There are several types of transition property that may be placed in service after 1985 and still be eligible for the regular credit in that year:

- Binding contract on 12-31-85: Property that is constructed, reconstructed, or acquired under a written contract that was binding on December 31, 1985.
- Construction in progress on 12-31-85: Property that is constructed or reconstructed if at least 5% of the cost, or $1 million, had been incurred or committed by December 31, 1985.
- Equipped building or plant facility in progress on 12-31-85: If construction had begun pursuant to a written specific plan and more than one-half the cost had been incurred or committed by December 31, 1985.
- Specific projects listed in the Tax Reform Act of 1986.

Transition property must be placed in service before the date shown in the following table. Otherwise, no credit will be allowed.

Property class life (years)	**Must be placed in service before**
3 or more but less than 5	July 1, 1986
5 or more but less than 7	January 1, 1987
7 or more but less than 20	January 1, 1989
20 or more	January 1, 1991

You must reduce the basis for depreciation by the full amount of the credit claimed.

QPE Property.—The regular credit may be claimed on QPEs so long as it is reasonable to expect that the property will be transition property when placed in service before the date shown in the table above. For any year that the reasonable expectations change, or if the property is not placed in service before the date shown, all post-1985 QPEs must be recaptured.

The election to take a reduced credit instead of adjusting the basis of QPE property is no longer available. Although you do not have to amend prior years, for periods after 1985 you must reduce the depreciable basis of QPE property by the full amount of the credit claimed, even if you made a section 48(q)(4) election in a prior year.

Qualified Timber Property.—The regular credit may be claimed in 1988 for the portion of the adjusted basis of qualified timber property that is treated as section 38 property under section 48(a)(1)(F). For timber property you must reduce the amortizable basis by one-half of the credit taken.

Enter the basis of recovery property in column (2). This is generally the cost of the property reduced by any personal-use factor and by any portion that was expensed under section 179. It includes all items properly included in the depreciable basis, such as installation and freight costs. *Recovery property* is tangible personal property used in a trade or business or held for the production of income, and depreciated under the Accelerated Cost Recovery System (ACRS). See sections 46(c)(7), 168 (as in effect before the Tax Reform Act of 1986), and 280F.

Line 2. Nonrecovery Property.—Compute your qualified investment using the worksheet format at the bottom of this page. *Nonrecovery property* includes:

- property you elect to depreciate using a method not expressed in terms of years;
- property you elect to amortize (*e.g.*, leasehold improvements);
- property transferred or acquired merely to bring the property under ACRS;
- property acquired in certain nonrecognition transactions;
- certain property used outside the U.S.;
- public utility property if you do not use the normalization method of accounting.

See section 168(e) for further details.

Enter the amortizable basis in forestation and reforestation expenditures on line 2(c) of the worksheet. See section 48(a)(1)(F). See section 46(c)(5) for rules for certain pollution control facilities.

Line 2 Nonrecovery Property Worksheet	Line	(1) Life Years	(2) Basis or Cost	(3) Applicable Percentage	(4) Qualified Investment (Column 2 x column 3)
New	**(a)**	3 or more/less than 5		33⅓	
	(b)	5 or more/less than 7		66⅔	
	(c)	7 or more		100	
Used	**(d)**	3 or more/less than 5		33⅓	
	(e)	5 or more/less than 7		66⅔	
	(f)	7 or more		100	
Total—Add lines (a) through (f) and enter on line 2 of Form 3468				**2**	

Lines 1(a) and 1(b) of form; lines 2(a), 2(b), and 2(c) of worksheet. Qualified Progress Expenditures.—Enter on the proper line the amount of qualified progress expenditures made in the tax year.

Do not take any qualified progress expenditures for the year the property is placed in service or for the year for which recapture is required for the property. The credit allowed for the year the property is placed in service is based on the entire qualified investment reduced by the progress expenditures included as qualified investment in earlier years. See section 46(d) for more information.

Lines 1(c) and 1(d) of form; lines 2(d), 2(e), and 2(f) of worksheet. Used Property Dollar Limitation.—In general, you may not take into account more than $150,000 of the cost of used property in any one year. This does not include the basis of any property traded in unless the trade-in caused the recapture of all or part of an investment credit allowed earlier or a reduction in an investment credit carryback or carryforward. Determine the $150,000 amount before applying the percentages based on the class of property or useful life. Enter the cost (subject to the dollar limitation) of used property placed in service during the year. Property inherited, received as a gift, or acquired from certain related persons does not qualify for the investment credit.

If a husband and wife file separate returns, each may claim up to $75,000. If one of them has *no* qualifying used property, the other may claim up to $150,000.

The $150,000 limitation applies to a partnership, S corporation, estate, or trust. The $150,000 must be divided among the estate or trust and its beneficiaries based on the income of the estate or trust allocable to each. A $150,000 limitation also applies to each partner, shareholder, or beneficiary. Controlled corporate groups must divide the limitation among all component members. See section 48(c) and related regulations.

Line 4.— Multiply line 3 by 10% (.10). However, you must reduce the regular 10% credit for transition and QPE property (but not for qualified timber property) by 35%, thus making the credit for this type of property 6.5% (10% minus 35% of 10%). Include the reduced credit on line 4.

If you use **all** of the transition or QPE credit in the current year, then none of the reduction may be carried to any other year.

If you are able to use **only a portion** of the reduced credit in the current year because you are limited by the tax liability limitations, then you may carry forward to your next year the unused portion of the reduced credit and a corresponding portion of the 35% reduction.

If, for example, you are able to use half of the reduced credit in 1988, then you may carry forward the other half of the reduced credit and half of the reduction.

If you are **not** able to use **any** of the reduced credit because of the tax liability limitations, then you may carry forward to your next year the entire credit (both the reduced credit and the reduction).

Lines 5a and 5b. Rehabilitation Expenditures.— You may take a credit for certain capital costs incurred for additions or improvements to qualified existing buildings and for rehabilitation of certified historic structures. The expenditures must be added to the basis of the building and depreciated by the straight-line method and must be incurred in connection with the rehabilitation of a qualified rehabilitated building. The applicable percentage for qualified rehabilitation expenditures is 100%.

The increase in depreciable basis resulting from the expenditures must be decreased by the allowed credit.

For filers placing property in service in 1988, the expenditures must be for either:

(1) nonresidential real property,

(2) residential rental property, or

(3) real property that has a class life of more than 12½ years.

See section 48(g) for other details and section 251(d) of the Tax Reform Act of 1986 for transitional rules applicable to line 5a.

If you are claiming a credit for a certified historic structure, you must attach a copy of your request for final certification from the National Park Service (NPS Form 10-168c). (Do not do this if the credit is a flow-through from a partnership, S corporation, estate or trust because that entity will attach a copy to its return. Instead, write "$ ____________ FROM PARTNERSHIP" (or "S CORP.," etc.) on the dotted line to the left of the entry column.)

Lines 3, 5, and 14a Limitations.—Mutual savings institutions, regulated investment companies, and real estate investment trusts are subject to special limitations for the amounts to be entered on lines 3, 5, and 14a. See regulations section 1.46-4.

Line 6. Credit from Cooperative.— Section 1381(a) cooperative organizations may claim investment credit. If the cooperative cannot use any of the credit because of the tax liability limitation, the unused credit must be allocated to the patrons of the cooperative. The recapture provisions of section 47 apply as if the cooperative had kept the credit and not allocated it. Patrons should enter their regular investment credit from a cooperative on line 6.

Line 8.—If you are an individual, estate, or trust and any credit on line 8 is from a passive activity, see **Form 8582-CR,** Passive Activity Credit Limitations, before carrying the credit to line 1 of Form 3800 or completing Part III of Form 3468. If you are a corporation and any credit on line 8 is from a passive activity, see **Form 8810,** Corporate Passive Activity Loss and Credit Limitations, before carrying the credit to line 1 of Form 3800 or completing Part III of Form 3468. If the credit is reduced by the passive activity limitations, the amount carried to line 1 of Form 3800 will be the line 8 credit reduced by the passive activity limitation. If you do not use Form 3800, the allowed credit on line 16 of Form 3468 may not exceed the line 8 credit reduced by the passive activity limitation.

Line 10c. Other Filers.—Before you can claim the investment credit against your income tax liability, you must reduce this tax liability by the credits listed below:

- Personal credits (child and dependent care credit, credit for elderly or disabled, and the credit for interest on certain home mortgages)
- Foreign tax credit
- Possessions corporation tax credit
- Orphan drug credit
- Nonconventional source fuel credit

Line 13c. Other Filers.—Enter the sum of line 11 and your alternative minimum tax from whichever alternative minimum tax form you file.

Line 14. Limitation.—If a husband and wife file separate returns, each must use $12,500 instead of $25,000. But if one of them has *no* investment credit, then the other may use the entire $25,000.

Controlled corporate groups must divide the $25,000 among all component members.

Estates and trusts must determine the percentage of total income allocable to the estate or trust itself, and apply the percentage to the $25,000 limit on line 14a.

Carryback and Carryforward of Unused Credits.—If you cannot use part of the credit because of the tax liability limitations or the operation of the alternative minimum tax, you may carry it back 3 years, then forward 15 years. Use Form 3800.

Line 16.—If you are a "C" corporation with regular investment credit on line 4, your total allowed credit to be entered on line 16 will be figured differently than the instructions on the form direct. Use the worksheet in the instructions for **Form 3800,** General Business Credit, to figure the amount to enter here. If you figure your credit under this limitation, write "SEC 38(c)(2)" in the margin next to your entry on line 16.

If any of the credit reported on this form is from a passive activity, the amount entered on line 16 may not exceed the line 8 credit reduced by the passive activity limitation.

Form **3800**
Department of the Treasury
Internal Revenue Service

General Business Credit

▶ **Attach to your tax return.**

OMB No. 1545-0895
1988
Attachment Sequence No. 24

Name(s) as shown on return	**Identifying number**

Part I Tentative Credit

1	Investment credit (Form 3468, line 8)	1	
2	Jobs credit (Form 5884, line 6)	2	
3	Credit for alcohol used as fuel (Form 6478, line 11)	3	
4	Credit for increasing research activities (Form 6765, line 25)	4	
5	Low-income housing credit (Form 8586, line 6)	5	
6	**Current year general business credit**—Add lines 1 through 5	6	
7	Carryforward of general business credit (investment (see instructions), WIN, jobs, alcohol fuel, research, ESOP, or low-income housing credits)	7	
8	Carryback of general business credit to 1988	8	
9	Tentative general business credit—Add lines 6, 7, and 8	9	

Part II Tax Liability Limitations

10a	Individuals—From Form 1040, enter amount from line 40 b Corporations—From Form 1120, Schedule J, enter tax from line 3 (or Form 1120-A, Part I, line 1) c Other filers—Enter income tax before credits from return	10	
11a	Individuals—From Form 1040, enter credits from lines 41, 42, and 43, plus any orphan drug credit, mortgage interest credit, and nonconventional source fuel credit included on line 46 b Corporations—From Form 1120, Schedule J, enter credits from lines 4a through 4d (Form 1120-A filers, enter zero) c Other filers—See instructions for line 11c	11	
12	Income tax liability as adjusted—Subtract line 11 from line 10	12	
13	Tentative minimum tax— a Individuals—From Form 6251, enter amount from line 17 b Corporations—From Form 4626, enter amount from line 13 c Estates and Trusts—From Form 8656, enter amount from Part III, line 10	13	
14	Net income tax— a Individuals—Enter the sum of line 12, above, and line 19 of Form 6251 b Corporations—Enter the sum of line 12, above, and line 16 of Form 4626 c Other filers—See instructions for line 14c	14	
15	If line 12 is more than $25,000—Enter 25% of the excess	15	
16	Enter—Line 14 less whichever is greater, line 13 or line 15 (if less than zero, enter zero)	16	
17	General business credit—Enter the smallerof line 9, or line 16 (corporations, see instructions) here and on Form 1040, line 44; Form 1120, Schedule J, line 4e; Form 1120-A, Part I, line 2a; or the proper line on other returns	17	

For Paperwork Reduction Act Notice, see page 1 of the separate instructions to this form.

Form **3800** (1988)

Form **3903F**

Department of the Treasury
Internal Revenue Service

Foreign Moving Expenses

▶ Attach to Form 1040.
▶ See separate Instructions.

OMB No. 1545-0062

1988

Attachment
Sequence No. 63

Name(s) as shown on Form 1040

Your social security number

1 City and country in which your **old** workplace was located ▶

2 City and country in which your **new** workplace is located ▶

Part I Moving Expenses

	Section A.—Transportation of Household Goods			
3	Transportation and storage for household goods and personal effects			3
	Section B.—Expenses of Moving From Old to New Home			
4	Travel and lodging **not** including meals		4	
5	Total meals	5		
6	Multiply line 5 by 80% (.80)		6	
7	Add lines 4 and 6			7
	Section C.—Pre-move Househunting Expenses			
8	Travel and lodging **not** including meals		8	
9	Total meals	9		
10	Multiply line 9 by 80% (.80)		10	
11	Add lines 8 and 10		11	
	Section D.—Temporary Quarters (for any 90 days in a row after getting your job)			
12	Lodging expenses **not** including meals		12	
13	Total meals	13		
14	Multiply line 13 by 80% (.80)		14	
15	Add lines 12 and 14		15	
	Section E.—Qualified Real Estate Expenses			
16	Expenses of (check one): **a** ☐ selling or exchanging your old home; or **b** ☐ if renting, settling an unexpired lease		16	
17	Expenses of (check one): **a** ☐ buying your new home; or **b** ☐ if renting, getting a new lease		17	

Part II Dollar Limitations

18	Add lines 11 and 15	18		
19	Enter the smaller of line 18 or $4,500 ($2,250 if married, filing a separate return, and at the end of the tax year you lived with your spouse who also started work during the tax year)		19	
20	Add lines 16, 17, and 19		20	
21	Enter the smaller of line 20 or $6,000 ($3,000 if married, filing a separate return, and at the end of the tax year you lived with your spouse who also started work during the tax year)			21
22	Add lines 3, 7, and 21			22
23	Amount of expenses allocable to excluded income or housing costs (see instructions)			23
24	Subtract line 23 from line 22. This is your moving expense deduction. **Enter here and on Schedule A (Form 1040), line 19.** (**Note:** *Any payments your employer made for any part of your move (including the value of any services furnished in kind) should be included on Form W-2. Report the amount on* **Form 1040, line 7**. *See* **Reimbursements** *in the Instructions.*) ▶			24

For Paperwork Reduction Act Notice, see separate Instructions.

Form **3903F** (1988)

1988

Department of the Treasury
Internal Revenue Service

Instructions for Form 3903F

Foreign Moving Expenses

Paperwork Reduction Act Notice

We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	52 min.
Learning about the law or the form	7 min.
Preparing the form	35 min.
Copying, assembling, and sending the form to IRS	20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making these forms more simple, we would be happy to hear from you. You can write to either IRS or the Office of Management and Budget at the addresses listed in the instructions for Form 1040.

Change You Should Note

Recent law changes put a new limitation on the amount of reimbursed meal expenses that are deductible as moving expenses. Now only 80% of reimbursed meal expenses are deductible. This is true even if your employer did not withhold tax on the amounts. Previously, only unreimbursed meals were subject to this limitation. See **Meal Expenses,** below.

Purpose of Form

Use Form 3903F if you are a U.S. citizen or resident alien who moved to a new principal workplace outside the United States or its possessions, and you qualify to deduct your moving expenses.

Note: *Use **Form 3903,** Moving Expenses, instead of this form if you moved from a foreign country to the United States or its possessions because of a change in the location of your job. Form 3903 should also be used by retirees and survivors who qualify to deduct their expenses for moving from a foreign country to the United States or its possessions.*

Additional Information

For more information about moving expenses, please get **Pub. 521,** Moving Expenses.

Retirees and survivors should get **Pub. 54,** Tax Guide for U.S. Citizens and Resident Aliens Abroad, for an explanation of the requirements that must be met to deduct moving expenses.

Who May Deduct

If you moved to a different home because you began work at a new workplace outside the United States or its possessions, you may be able to deduct your moving expenses. You may qualify for a deduction whether you are self-employed or an employee. However, you must meet certain tests, explained below.

Distance Test.—Your new workplace must be at least 35 miles farther from your old home than your old workplace was. For example, if your old workplace was 3 miles from your old home, your new workplace must be at least 38 miles from that home. If you did not have an old workplace, your new workplace must be at least 35 miles from your old home. (The distance between two points is the shortest of the more commonly traveled routes between the points.)

Time Test.—If you are an employee, you must work full time for at least 39 weeks during the 12 months right after you move. If you are self-employed, you must work for at least 39 weeks during the first 12 months and a total of at least 78 weeks during the 24 months right after you move.

You may deduct your moving expenses for 1988 even if you have not met the time test before your 1988 tax return is due. You may do this if you expect to meet the 39-week test by the end of 1989 or the 78-week test by the end of 1990. If you have not met the test by then, you will have to do one of the following:

- Amend your 1988 tax return on which you deducted moving expenses. To do this, use **Form 1040X,** Amended U.S. Individual Income Tax Return; or
- In the year you cannot meet the test, report as income on your tax return the amount of your 1988 moving expense deduction that reduced your 1988 income tax. For more information, see **Time Test** in Pub. 521.

If you do not deduct your moving expenses on your 1988 return and you later meet the time test, you may take the deduction by filing an amended return for 1988. To do this, use Form 1040X.

Exceptions to the Distance and Time Tests.—You do not have to meet the time test in case of death, if your job ends because of disability, if you are transferred for your employer's benefit, or if you are laid off or discharged for a reason other than willful misconduct.

If you are in the armed forces, you do not have to meet the distance and time tests if the move is due to a permanent change of station. A permanent change of station includes a move in connection with and within 1 year of retirement or other termination of active duty. In figuring your moving expenses, do not deduct any moving expenses for moving services that were provided by the military or that were reimbursed to you and that you did not include in income. However, you may deduct your unreimbursed moving expenses, subject to the dollar limits. If you and your spouse and dependents are moved to or from different locations, treat the moves as a single move.

Moving Expenses in General

You may deduct most of the reasonable expenses you incur in moving your family and dependent household members. These include your costs to move to the new location (Part I, Sections A and B), pre-move househunting expenses (Section C), expenses of temporary quarters once you arrive in the new location (Section D), and certain qualified real estate expenses (Section E).

You MAY NOT deduct expenses, such as a loss on the sale of your home, mortgage penalties, refitting draperies and carpets, or quitting club memberships. Neither can you deduct expenses for employees, such as a servant, governess, or nurse.

Reimbursements

You must include any reimbursement of, or payment for, moving expenses in gross income as compensation for services. If your employer paid for any part of your move, you must report that amount as income on **Form 1040, line 7.** Your employer should include the amount paid in your total income on Form W-2. However, if you are not sure that the reimbursements have been included in your Form W-2, check with your employer. Your employer must give you a statement showing a detailed breakdown of reimbursements or payments for moving expenses. Your employer may use **Form 4782,** Employee Moving Expense Information, to give you the required breakdown of reimbursements, or your employer may use his or her own form.

You may choose to deduct moving expenses in the year you are reimbursed by your employer, even though you paid for the moving expenses in a different year. However, special rules apply. See **How to Report** in Pub. 521.

Meal Expenses

Only 80% of your meal expenses are deductible. These limitations are figured on lines 6, 10, and 14, in Sections B, C, and D, respectively.

For more information, see Pub. 521.

No Double Benefit

You may not take double benefits. For example, you may not use the moving expenses on line 16 that are part of your moving expense deduction to lower the amount of gain on the sale of your old home. In addition, you may not use the moving expenses on line 17 that are part of your moving expense deduction to add to the cost of your new home. (Use **Form 2119,** Sale of Your Home, to figure the gain, if any, you must report on the sale of your old home and the adjusted cost of the new one.)

If you file **Form 2555,** Foreign Earned Income, to exclude any of your income or housing costs, you may not deduct the part of your moving expenses that is allocable to the excluded income. See the instructions for line 23 and Pub. 54 for information on how to figure the part of your moving expenses that is allocable to the excluded income and how to report this amount.

Part I Instructions

We have provided specific instructions for most of the lines on the form. Those lines that do not appear in these instructions are self-explanatory.

Caution: *If you are claiming meal expenses in Section B, C, or D, you must state meal expenses separately in each section. This is necessary because all meals are subject to the 80% limitation.*

Section A.—Enter on line 3 the actual cost of packing, crating, moving, storing, and insuring your household goods and personal effects. Also, include moving your possessions to and from storage and storing them for all or part of the time the new workplace continues to be your principal workplace.

Note: *If you moved in an earlier year and are claiming only storage fees during your absence from the United States, you do not have to complete this form. Enter the net amount (after the reduction for the part that is allocable to excluded income) on Schedule A (Form 1040), line 19. Next to the amount, write "Storage Fees."*

Section B.—Enter the costs of travel from your old home to your new home. These include transportation, meals, and lodging on the way. Include costs for the day you arrive. *Show your meal expenses separately on line 5.* You may only include expenses for one trip. However, not all the members of your household have to travel together or at the same time.

If you use your own car, you may figure the expenses in either of the following two ways:

- Actual out-of-pocket expenses for gas and oil (keep records to verify the amounts); or
- At the rate of 9 cents a mile (keep records to verify your mileage).

You may add parking fees and tolls to the amount claimed under either method.

Section C.—Include the costs of travel before you move in order to look for a new home. *Show your meal expenses separately on line 9.* You may deduct the costs only if:

- You began the househunting trip after you got the job; **and**
- You returned to your old home after looking for a new one; **and**
- You traveled to the general location of the new workplace primarily to look for a new home.

There is no limit on the number of househunting trips taken and you do not have to be successful to qualify for this deduction. If you used your own car, figure transportation costs the same way as in the instructions for Section B. If you are self-employed, you may deduct househunting costs only if you had already made substantial arrangements to begin work in the new location.

Section D.—Include the costs of meals and lodging while occupying temporary quarters in the area of your new workplace. *Show your meal expenses separately on line 13.* You may include these costs for any period of 90 days in a row after you get the job but before you move into permanent quarters. If you are self-employed, you may count these expenses only if you had already made substantial arrangements to begin work in the new location.

Section E.—You may include most of the costs to sell or buy a home or to settle or get a lease. Examples of qualified real estate expenses you MAY include are:

- Sales commissions;
- Advertising costs;
- Attorney's fees;
- Title and escrow fees;
- State transfer taxes; and
- Costs to settle an unexpired lease or to get a new lease.

Examples of real estate expenses you MAY NOT include are:

- Costs to improve your home to help it sell;
- Charges for payment or prepayment of interest; and
- Payments or prepayments of rent.

Check the appropriate box, **a** or **b**, for lines 16 and 17 when you enter the amounts for these two lines.

Part II Instructions

The following dollar limitations apply to the expenses shown in Part I.

Line 18.—Enter your combined expenses for househunting and temporary quarters (lines 11 and 15). These expenses are limited to $4,500 (on line 19).

Line 20.—Enter here the amount from line 19 combined with real estate expenses (lines 16 and 17). These are overall per-move limits that may not be more than $6,000 (on line 21).

There are some special situations:

- If both you and your spouse began work at new workplaces and shared the same new home at the end of the tax year, you must treat this as one move rather than two. If you file separate returns, each of you is limited to a total of $2,250 on line 19, and to a total of $3,000 on line 21.
- If both you and your spouse began work at new work places, but each of you moved to separate new homes, this is treated as two separate moves. If you file a joint return, line 19 is limited to a total of $9,000, and line 21 is limited to a total of $12,000. If you file separate returns, each of you is limited to a total of $4,500 on line 19, and a total of $6,000 on line 21.

Note: *Use any amount on* ***line 16a*** *not deducted because of dollar limitations to decrease the gain on the sale of your home. Use any amount on* ***line 17a*** *not deducted because of the limit to increase the basis of your new home.*

Line 23.—If you file Form 2555 and your period of bona fide residence or physical presence in the year of your move is 120 days or more, the moving expense is connected with earning the income at the foreign location in the year of your move. Compute the unallowable part of the moving expenses by multiplying the amount on line 22 by a fraction, the numerator of which is the excluded income and the denominator of which is total foreign earned income. Enter this result on line 23. Attach a statement to your return showing how you figured this amount.

If your period of bona fide residence or physical presence in the year of your move is **less** than 120 days, the moving expense (except storage expense) is connected with earning the income at the foreign location in the year of the move **and** the year following the move. Compute the unallowable part of the moving expense by multiplying the amount on line 22 by a fraction, the numerator of which is the income excluded in both years and the denominator of which is the total foreign earned income in both years. Enter the result on line 23. Attach a statement to your return showing how you figured this amount.

Recapture of moving expense deduction.—If your moving expense deduction is attributable to your foreign earnings in 2 years (the year of the move and the following year), you should preferably request an extension of time to file your return for the year of the move until after the end of the following year. You would then have all the information needed to properly figure the moving expense deduction.

If you do not request an extension, you should provisionally figure the part of the entire moving expense deduction that is disallowed by multiplying the moving expense by a fraction, the numerator of which is your excluded foreign earned income for the year of the move, and the denominator of which is your total foreign earned income for the year of the move. Then, when you know your foreign earnings and exclusion for the following year, you must adjust the moving expense deduction by filing an amended return for the year of the move, or by recapturing any additional unallowable amount as income on your return for the following year. If, after you make the final computation, you have an additional amount of allowable moving expense deduction, you may claim this only on an amended return for the year of the move; you may not claim it on the return for the second year.

Form **4626**

Department of the Treasury
Internal Revenue Service

Alternative Minimum Tax—Corporations
(including environmental tax)

▶ See separate instructions.
▶ Attach to your tax return.

OMB No. 1545-0175

1988

Name as shown on tax return

Employer identification number

1	Taxable income or (loss) before net operating loss deduction			1	
2	**Adjustments:**				
a	Depreciation of tangible property placed in service after 1986	2a			
b	Amortization of certified pollution control facilities placed in service after 1986	2b			
c	Amortization of mining exploration and development costs paid or incurred after 1986	2c			
d	Amortization of circulation expenditures paid or incurred after 1986 (personal holding companies only)	2d			
e	Basis adjustments in determining gain or loss from sale or exchange of property	2e			
f	Long-term contracts entered into after 2/28/86	2f			
g	Installment sales of certain property	2g			
h	Merchant marine capital construction funds	2h			
i	Section 833(b) deduction (Blue Cross, Blue Shield, and similar type organizations only)	2i			
j	Tax shelter farm activity loss (personal service corporations only)	2j			
k	Passive activity loss (closely held corporations and personal service corporations only)	2k			
l	Income with respect to the possessions tax credit and the alcohol fuel credit	2l			
m	Certain loss limitations	2m			
n	Beneficiaries of estates and trusts	2n			
o	Combine lines 2a through 2n			2o	
3	**Tax preference items:**				
a	Depletion	3a			
b	Tax-exempt interest from private activity bonds issued after August 7, 1986	3b			
c	Appreciated property charitable deduction	3c			
d	Add lines 3a through 3c			3d	
e	Intangible drilling costs	3e			
f	Reserves for losses on bad debts of financial institutions	3f			
g	Accelerated depreciation of real property placed in service before 1987	3g			
h	Accelerated depreciation of leased personal property placed in service before 1987 (personal holding companies only)	3h			
i	Amortization of certified pollution control facilities placed in service before 1987	3i			
j	Add lines 3e through 3i			3j	
4	Combine lines 1, 2o, 3d, and 3j			4	
5	**Excess book income adjustment:**				
a	Enter your adjusted net book income	5a			
b	Subtract line 4 from line 5a (even if one or both of these figures is a negative number). (Enter zero if the result is zero or less)	5b			
c	Multiply line 5b by 50%			5c	
6	Combine lines 4 and 5c. If zero or less, stop here (you are not subject to the alternative minimum tax)			6	
7	Alternative tax net operating loss deduction. (Do not enter more than 90% of line 6.)			7	
8	Alternative minimum taxable income (subtract line 7 from line 6)			8	
9	**Exemption phase-out computation:**				
a	Tentative exemption amount. Enter $40,000 (members of a controlled group, see instructions)	9a			
b	Enter $150,000 (members of a controlled group, see instructions)	9b			
c	Subtract line 9b from line 8. If zero or less, enter zero	9c			
d	Multiply line 9c by 25%	9d			
e	Exemption. Subtract line 9d from line 9a. If zero or less, enter zero			9e	
10	Subtract line 9e from line 8. If zero or less, enter zero			10	
11	Multiply line 10 by 20%			11	
12	Alternative minimum tax foreign tax credit			12	
13	Tentative minimum tax (subtract line 12 from line 11)			13	
14	General business credit allowed against alternative minimum tax (see instructions)			14	
15	Regular tax liability before all credits except the foreign tax credit and possessions tax credit			15	
16	**Alternative minimum tax** (subtract the sum of lines 14 and 15 from line 13). Enter on line 9a, Schedule J, Form 1120, or on the comparable line of other income tax returns			16	
17	**Environmental tax** (subtract $2,000,000 from line 6 (computed without regard to your environmental tax deduction), and multiply the result, if any, by 0.12% (.0012)). Enter on line 9b, Schedule J, Form 1120, or on the comparable line of other income tax returns (members of a controlled group, see instructions)			17	

For Paperwork Reduction Act Notice, see separate instructions.

1988

Department of the Treasury
Internal Revenue Service

Instructions for Form 4626

Alternative Minimum Tax—Corporations

(Section references are to the Internal Revenue Code unless otherwise noted.)

General Instructions

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	11 hrs., 14 min.
Learning about the law or the form	10 hrs., 25 min.
Preparing and sending the form to IRS	11 hrs., 4 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to either IRS or the Office of Management and Budget at the addresses listed in the instructions for the tax return with which this form is filed.

Who Must File.—You must file this form if your taxable income or (loss) before the net operating loss **(NOL)** deduction when combined with your adjustments and tax preference items (including the book income adjustment) totals more than $40,000. For more information, see **Publication 542,** Tax Information on Corporations.

Short Period Return.—If this is a short period return, use the formula in section 443(d) to determine your alternative minimum taxable income **(AMTI)** and your alternative minimum tax **(AMT).**

If you are preparing Form 4626 for a regulated investment company, real estate investment trust, or a common trust fund, see section 59(d) regarding the apportionment of "differently treated items."

Line-by-Line Instructions

Line 1.—Enter your taxable income or (loss) before the NOL deduction. For example, if you file Form 1120, subtract line 29(b) from line 28.

Important: *If you are subject to the environmental tax, you will generally need to figure that tax on line 17 of this form* **before** *completing line 1, since any environmental tax you* **paid or incurred** *during the tax year is allowed as a deduction in computing the taxable income you will enter on line 1.*

Line 2a—Depreciation of tangible property placed in service after 1986 (or after 7/31/86 if you made the transitional election under section 203(a)(1)(B) of the Tax Reform Act of 1986).

Caution: *If you have a depreciation adjustment attributable to a passive activity or a tax shelter farm activity, do not include that adjustment on line 2a. Instead, include the adjustment on line 2j or 2k.*

The depreciation expense allowable for regular tax purposes under section 167 with respect to any tangible property placed in service after 1986 must be recomputed for AMT purposes under the alternative depreciation system **(ADS)** described in section 168(g) as follows:

(1) For any tangible real property described in section 1250(c) (generally nonresidential real and residential rental), use the straight line method over 40 years using the same mid-month convention you used for regular tax purposes;

(2) For any tangible property (other than the tangible real property described in (1) above) with respect to which depreciation for regular tax purposes is determined using the straight line method, recompute your depreciation expense using the straight line method over the property's "class life" using the same convention you used for regular tax purposes;

(3) For all tangible property other than such property described in (1) or (2) above, use the 150% declining balance method, switching to straight line the first tax year it gives a larger deduction, over the property's class life. Use the same convention you used for regular tax purposes.

In applying the above rules:

(1) The "class life" to be used for AMT purposes has a different meaning than the recovery period used for regular tax purposes (although these periods could possibly be the same in some instances). The class lives you need to use for AMT purposes can be found in Rev. Proc. 87-56, 1987-2 C.B. 674 or in **Publication 534,** Depreciation. Use 12 years for any tangible personal property that does not have an assigned class life;

(2) See Rev. Proc. 87-57, 1987-2 C.B. 687, for optional tables (14 through 18) that can be used in computing depreciation for AMT purposes. (These optional tables have been reproduced in Publication 534.);

(3) Do not make an adjustment for property for which you made a section 168(f)(1) election for regular tax purposes to exclude such property from MACRS treatment and depreciate it under another method described in that section (such as the unit-of-production method) OR for property that is specifically excluded from MACRS treatment under sections 168(f)(2) through (4); and

(4) You must take into consideration the transitional rules (described in section 56(a)(1)(C)) and the normalization rules (described in section 56(a)(1)(D)).

Subtract your recomputed AMT expense from the depreciation expense you claimed for regular tax purposes and enter the result on line 2a. If the total recomputed AMT expense exceeds the depreciation expense you claimed for regular tax purposes, enter the difference as a negative amount. **Note:** *The line 2a depreciation adjustment differs from the depreciation tax preferences you may have to compute for lines 3g and 3h in that, on line 2a, you may net negative adjustments against positive adjustments, whereas the tax preferences of lines 3g and 3h include only amounts from specific assets that produce positive adjustments.*

Note also: *Depreciation that is capitalized to inventory under the uniform capitalization rules must be refigured using the rules described above.*

Line 2b—Amortization of certified pollution control facilities placed in service after 1986.—The amortization deduction you claimed for regular tax purposes is not allowed for AMT purposes.

For AMT purposes, you must use the ADS described in section 168(g). As such, use the straight line method over the facility's class life (which may be found in Rev. Proc. 87-56 or in Publication 534). **Note:** *Section 168(g) applies to 100% of the asset's amortizable basis. Do not reduce basis by the 20% cutback of section 291 as you did for regular tax purposes.*

Subtract your recomputed AMT expense from the expense you claimed for regular tax purposes and enter the result on line 2b. If your recomputed AMT expense is greater than the expense you claimed for regular tax purposes, enter the difference as a negative amount.

Note: *The line 2b amortization adjustment differs from the tax preference you may have to compute for line 3i in that, on line 2b, you may net negative adjustments against positive adjustments, whereas the tax preference of line 3i includes only amounts from specific assets that produce positive adjustments.*

Line 2c—Amortization of mining exploration and development costs paid or incurred after 1986.—*If, for regular tax purposes, you elected the optional 10-year writeoff under section 59(e) for all assets in this category, skip this line (no adjustment is necessary).*

The deduction you claimed for regular tax purposes under sections 616(a) and 617(a) is not allowed for AMT purposes. Instead, you must capitalize such costs and amortize them ratably over a 10-year period beginning with the tax year in which you made them. **Note:** *The 10-year amortization applies to 100% of the mining development and exploration costs paid or incurred during the tax year. Do not reduce basis by the 30% cutback of section 291 as you did for regular tax purposes.*

Subtract your recomputed AMT expense from the expense you claimed for regular tax purposes and enter the result on line 2c. If your recomputed AMT expense is greater than the expense you claimed for regular tax purposes, enter the difference as a negative amount. See section 56(a)(2)(B) if you had a loss with respect to any mine or other natural deposit (other than an oil, gas, or geothermal well).

Line 2d—Amortization of circulation expenditures paid or incurred after 1986 (personal holding companies only).—*If, for regular tax purposes, you elected the optional 3-year writeoff under section 59(e) for all of these expenditures, skip this line (no adjustment is necessary).*

The deduction you claimed for regular tax purposes (under section 173) for these expenditures incurred after 1986 is not allowed for AMT purposes. For AMT purposes, you must capitalize these expenditures and amortize them ratably over a 3-year period beginning with the tax year in which you made them.

Subtract your recomputed AMT expense from the expense you claimed for regular tax purposes and enter the result on line 2d. If your recomputed AMT expense is greater than the expense you claimed for regular tax purposes, enter the difference as a negative amount. See section 56(b)(2)(B) if you had a loss with respect to any property generating a circulation expenditure.

Line 2e—Basis adjustments in determining gain or loss from sale or exchange of property.—If, during the year, you disposed of property for which you are making (or have previously made) any of the adjustments described in lines 2a through 2d above, you must recompute the property's adjusted basis for AMT purposes. You must then recompute the property's gain or loss.

For AMT purposes, the property's adjusted basis is its cost less all applicable depreciation or amortization deductions allowed during the current tax year and previous tax years for AMT purposes. This recomputed basis is subtracted from the sales price to arrive at gain or loss for AMT purposes.

Enter the difference between the gain or loss reported on your tax return for regular tax purposes and your recomputed gain or loss for AMT purposes. If the gain recomputed for AMT purposes is less than the gain computed for regular tax purposes OR if the loss recomputed for AMT purposes is more than the loss computed for regular tax purposes OR if you recomputed a loss for AMT purposes and computed a gain for regular tax purposes, enter the difference as a negative amount.

Line 2f—Long-term contracts entered into after 2/28/86.—For AMT purposes, you must use the percentage of completion method rules described in section 460(b) to determine the taxable income from any "long-term contract" (defined in section 460(f)) you entered into after 2/28/86. However, this rule does not apply to any "home construction contract" (as defined in section 460(e)(6)) you entered into after 6/20/88 with respect to which you meet the two-year estimated completion requirement of section 460(e)(1)(B)(i) and the $10,000,000 ceiling on average annual gross receipts requirement of section 460(e)(1)(B)(ii). **Note:** *In the case of a contract described in section 460(e)(1), the percentage of the contract completed is to be determined using the simplified procedures for allocating costs outlined in section 460(b)(4).*

Subtract the income you reported for regular tax purposes from the income you recomputed for AMT purposes and enter the difference on line 2f. If the recomputed AMT income is less than the income you reported for regular tax purposes, enter the difference as a negative amount.

Line 2g—Installment sales of certain property.—With respect to any disposition of inventory (as defined in section 1221(1)) after 3/1/86, the installment method of accounting cannot be used in determining income for AMT purposes (except for certain dispositions of timeshares or residential lots for which you elected to pay interest under section 453(l)(2)(B)). **Note:** *For dispositions in tax years beginning before 1987, the above rule was different. As a result of the Revenue Act of 1987, the installment method may now be used for AMT purposes for* ***all nondealer*** *dispositions of property occurring in tax years beginning after 1986).*

Note also: *Under another provision of the Revenue Act of 1987, the installment method of accounting was repealed (for regular tax purposes) for "dealer dispositions" occurring after 1987.*

Application of rules in computing adjustment:

(1) Dealer dispositions: For dealer dispositions occurring after 3/1/86 but before 1/1/88, you will have adjustments with respect to those dispositions if you used the installment method for regular tax purposes but were required for AMT purposes to report the entire gain in the year of disposition. In such cases, enter the income you reported for regular tax purposes for the current year with respect to those dispositions on line 2g as a negative amount.

For dealer dispositions occurring after 1987, generally no adjustments are necessary since the installment method of accounting generally cannot be used for either regular tax purposes or for AMT purposes.

(2) Nondealer dispositions: For nondealer dispositions occurring after 3/1/86 but before the first day of your tax year that began in 1987, you will have adjustments with respect to those dispositions if you used the installment method for regular tax purposes but were required for AMT purposes to report the entire gain in the year of disposition. In such cases, enter the income you reported for regular tax purposes for the current year with respect to those dispositions on line 2g as a negative amount.

For nondealer dispositions occurring on or after the first day of your tax year that began in 1987, generally no adjustments are necessary since you are allowed to use the installment method of accounting for both regular tax purposes and AMT purposes.

Line 2h—Merchant marine capital construction funds.—Amounts deposited in these funds (established under section 607 of the Merchant Marine Act of 1936) after 1986 are not deductible for AMT purposes. Furthermore, earnings on these funds are not excludable from gross income for AMT purposes. Therefore, if you deducted these amounts or excluded them from taxable income for regular tax purposes, you must add them back on line 2h. See section 56(c)(2) for more information.

Line 2i—Section 833(b) deduction (Blue Cross, Blue Shield, and similar type organizations only).—This deduction is not allowed for AMT purposes. Therefore, if you took this deduction for regular tax purposes, you must add it back on line 2i.

Line 2j—Tax shelter farm activity loss (personal service corporations only).—Complete line 2j only if you have a gain or loss from a tax shelter farm activity (as defined in section 58(a)(2)) that is **not** a passive activity. If the tax shelter farm activity **is** a passive activity, you must include the gain or loss within your computations for line 2k below.

Recompute all gains and losses you reported for regular tax purposes from tax shelter farm activities by taking into account your AMT adjustments and tax preference items. **Important:** *To avoid duplication, any AMT adjustment or tax preference item taken into account on line 2j should not be included within the amounts to be entered on any other line of this form.*

Determine your tax shelter farm activity gain or loss for AMT purposes using the same rules you used for regular tax purposes with the following modification: No recomputed loss is allowed, except to the extent the personal service corporation is insolvent (see section 58(c)(1)). Furthermore, a recomputed loss may not be used in the current tax year to offset gains from other tax shelter farm activities. Instead, any recomputed loss must be suspended and carried forward indefinitely until: **(1)** you have a gain in a subsequent tax year from that same tax shelter farm activity OR **(2)** the activity is disposed of.

Note: *The amount of any tax shelter farm activity loss that is not deductible (and is therefore carried forward) for AMT purposes is likely to differ from the amount (if any) that is carried forward for regular tax purposes. Therefore, it is essential that you retain adequate records for both AMT purposes and regular tax purposes.*

Enter on line 2j the difference between the gain or loss you recomputed for AMT purposes and the gain or loss you reported for regular tax purposes. If you reported a loss for AMT purposes and a gain for regular tax purposes OR if you recomputed a loss for AMT purposes that exceeds the loss you reported for regular tax purposes OR if you reported a gain for regular tax purposes that exceeds the gain you recomputed for AMT purposes, enter the difference as a negative amount.

Line 2k—Passive activity loss (closely held corporations and personal service corporations only).—Recompute all passive activity gains and losses you reported for regular tax purposes by taking into account your AMT adjustments and tax preference items. **Important:** *To avoid duplication, any AMT adjustment or tax preference item taken into account on line 2k should not be included within the amounts to be entered on any other line of this form.*

Determine your passive activity gain or loss for AMT purposes using the same rules you used for regular tax purposes with the following modifications: **(1)** Do not use the phase-in of disallowance rules of section 469(m); and **(2)** If the corporation is insolvent, see section 58(c)(1).

Disallowed losses of a personal service corporation are suspended until such time it has income from that (or any other) passive activity or until such time the passive activity is disposed of. (In other words, its passive losses cannot offset "net active income" (defined in section 469(e)(2)(B)) or "portfolio income.") Disallowed losses of a closely held corporation that is not a personal service corporation are treated the same except that, in addition, they may be used to offset "net active income."

Note: *The amount of any passive activity loss that is not deductible (and is therefore carried forward) for AMT purposes is likely to differ from the amount (if any) that is carried forward for regular tax purposes. Therefore, it is essential that you retain adequate records for both AMT purposes and regular tax purposes.*

Enter on line 2k the difference between the gain or loss you recomputed for AMT purposes and the gain or loss you reported for regular tax purposes. If you reported a loss for AMT purposes and a gain for regular tax purposes OR if you recomputed a loss for AMT purposes that exceeds the loss you reported for regular tax purposes OR if you reported a gain for regular tax purposes that exceeds the gain you recomputed for AMT purposes, enter the difference as a negative amount.

Line 2l—Income with respect to the possessions tax credit and the alcohol fuel credit.—Your AMTI is not to include any income (from the sources described in section 936(a)(1)) that is eligible for the possessions tax credit of section 936 OR any amount with respect to the alcohol fuel credit that was included in your gross income in accordance with section 87. Therefore, if you included these types of income in your taxable income for regular tax purposes, subtract them out on line 2l.

Line 2m—Certain loss limitations.—Recompute gains and losses you reported for regular tax purposes from at-risk activities and partnerships by taking into account your AMT adjustments and tax preference items. If you have recomputed losses that must (in accordance with section 59(h)) be limited for AMT purposes by section 465 or by section 704(d) OR if, for regular tax purposes, you reported losses from at-risk activities or partnerships that were limited by those sections, compute the difference between the loss limited for AMT purposes and the loss limited for regular tax purposes with respect to each applicable at-risk activity or partnership. If the loss limited for regular tax purposes exceeds the loss limited for AMT purposes, the difference should be a negative number. Enter the total of all differences on line 2m.

Line 2n—Beneficiaries of estates and trusts.—If the corporation is a beneficiary, enter the amount included on Schedule K-1 (Form 1041), line 7.

Line 3a—Depletion.—In the case of mines, wells, and other natural deposits, enter the amount by which your depletion deduction under section 611 exceeds the adjusted basis of the property at the end of your tax year. In computing year-end adjusted basis, use the rules of section 1016; however, do not include a reduction for the current year's depletion deduction.

Figure the excess separately for each property. If the depletion deduction for any property does not exceed the property's year-end adjusted basis, the shortfall is not to be considered on line

3a. (In other words, do not use a shortfall in one property to offset the excess of depletion deduction over adjusted basis in any other property.)

Note: *In the case of iron ore and coal (including lignite), before figuring this tax preference item, the amount allowable as a deduction must be reduced by the cutback required under section 291.*

Line 3b—Tax-exempt interest from private activity bonds issued after August 7, 1986.—Enter the interest you earned on "specified private activity bonds" reduced by any deduction that would have been allowable if the interest were includible in gross income for regular tax purposes. Generally, the term "specified private activity bonds" means any private activity bond (as defined in section 141) issued after 8/7/86. See section 57(a)(5) for exceptions and for more information.

Line 3c—Appreciated property charitable deduction.—Enter the amount by which your contribution deduction allowable under section 170 would be reduced if all capital gain and section 1231 property were taken into account at its adjusted basis (rather than its fair market value).

Line 3e—Intangible drilling costs.—*If, for regular tax purposes, you elected the optional 10-year writeoff under section 59(e) for all assets in this category, skip this line (no adjustment is necessary).*

Intangible drilling costs **(IDCs)** from oil, gas, and geothermal properties are a tax preference item to the extent that "excess IDCs" exceed 65% of the "net income" from the properties. The tax preference item is computed separately for oil and gas properties that are not geothermal deposits and for oil and gas properties that are geothermal deposits.

"Excess IDCs" are the excess of: **(1)** the amount of IDCs you paid or incurred with respect to oil, gas, or geothermal properties that you elected to expense for regular tax purposes under section 263(c) (not including any section 263(c) deduction for nonproductive wells) reduced by the cutback required under section 291 for integrated oil companies; over **(2)** the amount that would have been allowed had you amortized that amount over a 120-month period starting with the month the well was placed in production. **Note:** *If you prefer not to use the 120-month period, you can elect to use any method that is permissible in determining cost depletion.*

"Net income" is the gross income you received or accrued from all oil, gas, and geothermal wells less the deductions allocable to these properties (reduced by the excess IDCs).

Line 3f—Reserves for losses on bad debts of financial institutions.—Enter the excess of: **(1)** the deduction allowable for a reasonable addition to a reserve for bad debts of a financial institution to which section 585 or 593 applies (reduced by the cutback required under section 291) over **(2)** the amount that would have been allowable had the financial institution maintained its bad debt reserve for all tax years on the basis of actual experience.

Line 3g—Accelerated depreciation of real property placed in service before 1987.—Enter the excess of the depreciation claimed for the property for regular tax purposes over the depreciation allowable for AMT purposes as refigured using the straight line method. Figure this amount separately for each property and include only positive adjustments on line 3g. For 15, 18, or 19-year real property, or low-income housing, use the straight line method over 15, 18, or 19 years.

Line 3h—Accelerated depreciation of leased personal property placed in service before 1987 (personal holding companies only).—For leased personal property, other than recovery property, enter the excess of the depreciation claimed for the property for regular tax purposes over the depreciation allowable for AMT purposes as refigured using the straight line method. Figure this amount separately for each property and include only positive adjustments on line 3h.

For leased recovery property, other than 15, 18, or 19-year real property, or low-income housing, enter the amount by which your depreciation deduction determined for regular tax purposes is more than the deduction allowable for AMT purposes using the straight line method over the following recovery period:

3-year property	5 years
5-year property	8 years
10-year property	15 years
15-year public utility property	22 years

Line 3i—Amortization of certified pollution control facilities placed in service before 1987.—If, for regular tax purposes, you made an election under section 169 to amortize the basis of a certified pollution control facility over a 60-month period, your tax preference with respect to each such facility is computed as follows:

(1) Reduce the current year amortization deduction by the 20% cutback (15% if the facility was placed in service in 1983 or 1984, 0% if placed in service before 1983) required under section 291;

(2) Reduce the result in (1) above by the deduction you would have been allowed under section 167; and

(3) Multiply the result in (2) above by $59\frac{5}{6}\%$ (71.6% if the facility was placed in service in 1983 or 1984, 100% if placed in service before 1983). Include only positive adjustments on line 3i.

Line 5a—Adjusted net book income of corporation.—*If you are preparing Form 4626 for a regulated investment company or a real estate investment trust, skip lines 5a through 5c (they do not apply).*

If you are preparing Form 4626 for an affiliated group that has filed a consolidated tax return for the current tax year under the rules of section 1501, be sure to determine adjusted net book income ***(ANBI)*** *on a consolidated basis using the specialized rules for related corporations listed below.*

Determining your ANBI is a three-step process. The **first step** is to determine your applicable financial statement **(AFS).** AFS is defined in section 56(f)(3). See Temporary Regulations section 1.56-1T(c) for details and examples.

The **second step** in determining your ANBI is to determine "net book income."

"Net book income" is the income or loss reported on the income statement of your AFS. Such income statement must reconcile with the balance sheet, if any, that is included in the AFS and must be used in computing changes in owner's equity reflected in the AFS.

Net book income must take into account all items of income, expense, gain, and loss for the tax year, including extraordinary items, income or loss from discontinued operations, and cumulative adjustments resulting from accounting method changes.

Net book income includes income or loss reported on the income statement of your AFS regardless of whether such income or loss is taken into account for other Federal income tax purposes. However, there is an exception (that applies for tax years beginning after 1986) for any income resulting from the transfer of stock by the corporation issuing such stock to a creditor in satisfaction of its indebtedness if, in such case, the corporation is a "debtor in a chapter 11 case" (as defined in section 108(d)(2)) or to the extent the corporation is "insolvent" (as defined in section 108(d)(3)).

Note: *If you do not have any of the types of financial statements or reports described in section 56(f)(3)(A), your net book income is your earnings and profits* ***(E&P)*** *for the current tax year.*

See Temporary Regulations sections 1.56-1T(b)(2)(iv) through (b)(7) for additional information and examples regarding the determination of net book income for: **(a)** consolidated groups; **(b)** foreign corporations; **(c)** corporations that have tax years and financial accounting years that differ; and **(d)** corporations that use current E&P.

The **third step** in determining your ANBI is to make adjustments to net book income. These adjustments include:

(1) Federal income taxes—You must adjust net book income to disregard any Federal income taxes which are directly or indirectly taken into account on your AFS.

Example: The AFS determined by Corporation A shows net book income of $120. In arriving at net book income, the AFS shows $20 of current and/or deferred state income tax expense and $60 of current and/or deferred Federal income tax expense. Assuming there are no other adjustments to net book income, Corporation A's ANBI is $180 ($120 of net book income + $60 of Federal income tax expense). **Note:** *No adjustment is made for state income tax expense.*

See Temporary Regulations section 1.56-1T(d)(3) for additional information and examples regarding more complex issues (such as extraordinary items shown on your AFS which are net of taxes and the effects of certain valuation adjustments) that may arise with respect to Federal income taxes on your AFS.

(2) Statements covering different periods—You must make appropriate adjustments to arrive at ANBI in any case in which an AFS covers a period other than the tax year. Generally, you need to include a pro rata portion of items from each AFS for each AFS accounting period that includes any portion of the tax year.

Example: Corporation B uses a September 30 year-end for accounting purposes and a calendar year for tax purposes. For its tax year ending December 31, 1988, after making all appropriate adjustments to the net book incomes of its AFSs, Corporation B will include 274/366 of the ANBI from its September 30, 1988, AFS and 92/366 of the ANBI from its September 30, 1989, AFS.

Note: *In this example, a problem arises in that the AFS for Corporation B's accounting period that ends September 30, 1989, will not be available before July 15, 1989, (which is the date Corporation B is required to file its tax return (including extensions) for the year ended December 31, 1988). In this case, Corporation B is required to make a reasonable estimate of the ANBI for the period in question. When the AFS covering the period becomes available, Corporation B must file an amended return within 90 days of the date of availability if the actual ANBI is higher than the estimate and results in additional tax liability.*

See Temporary Regulations section 1.56-1T(b) for additional information and examples regarding more complex issues that may arise with regard to statements covering different periods.

(3) Foreign taxes—Generally, you must adjust your net book income to "disregard" any income taxes imposed by any foreign country or U.S. possession that are directly or indirectly taken into account on your AFS. To apply this rule, the following adjustments must be made to the net book income of your AFS:

(a) Add back any "foreign taxes" deducted on your AFS to the extent they were not deductible for regular tax purposes. **Example:** Since for regular tax purposes, you are not permitted to deduct withholding or income taxes imposed by a U.S. possession on dividends received from a section 936 corporation, you are not permitted to deduct them on your AFS for AMT purposes. Therefore, any such taxes taken as a deduction on your AFS must be added back in arriving at net book income.

(b) Do not add back any income taxes imposed by any foreign country or U.S. possession that you deducted on your AFS if, for regular tax purposes, you elected to deduct such taxes in lieu of taking the foreign tax credit OR you were denied the benefit of the foreign tax credit under section 901(j). **Example 1:** If, for regular tax purposes, you elected to deduct foreign taxes in lieu of taking the foreign tax credit, do not add back the related foreign taxes expense that was taken as a deduction on your AFS in arriving at net book income. **Example 2:** If, for regular tax purposes, you deducted foreign taxes due to the fact you were denied the foreign tax credit for those taxes under section 901(j), do not add back the related foreign taxes expense that was taken as a deduction on your AFS in arriving at net book income.

(c) Any income that is related to taxes that are not deductible for regular tax purposes must be reflected gross of such related taxes on your AFS.

(4) Related corporations—If you filed a consolidated tax return for regular tax purposes, the entities included in that consolidated group may differ from those included in your AFS. For example, your AFS may include foreign companies and section 936 corporations; however, these entities cannot be included within your consolidated group for regular tax purposes. If the entities included in your AFS differ from those included in your consolidated tax return, you must make adjustments to the net book income of your AFS so that it includes: **(a)** only the activity of related corporations included in your consolidated tax return, and **(b)** the actual or deemed distributions you received from related corporations not included as members on your consolidated tax return.

See Temporary Regulations section 1.56-1T(d)(6) for more information regarding any additional reversing, consolidation/elimination, or other type entries that may be necessary in adjusting the net book income of your AFS.

(5) Omissions or duplications—In computing ANBI, you must not omit or duplicate any item. For example, included within the Temporary Regulations are rules that prevent omissions and duplications resulting from: **(a)** a taxpayer that depreciates an asset below its cost; **(b)** a consolidated group that uses current E&P; and **(c)** a taxpayer that restates its prior year's AFS. For more details and examples, see Temporary Regulations section 1.56-1T(d)(4)(ii)–(iv).

(6) Adjustments resulting from disclosure—See Temporary Regulations section 1.56-1T(d)(5) for specialized rules regarding: **(a)** adjustments for footnote disclosure and other supplementary information; **(b)** equity adjustments; **(c)** amounts disclosed in an accountant's opinion; and **(d)** accounting method changes that result in cumulative adjustments to the current year's AFS. The Temporary Regulations contain examples that illustrate these rules.

(7) Foreign taxpayers with a U.S. trade or business—See Temporary Regulations section 1.56-1T(d)(7) for these specialized rules.

(8) Special rules that apply with regard to cooperatives, life insurance companies, Alaska native corporations, and dividends from section 936 corporations—See sections 56(f)(2)(E) through (H) for these specialized rules. For more detailed explanations, see Temporary Regulations section 1.56-1T(e).

Line 5b.—Subtract line 4 from line 5a (even if one or both of these figures is a negative number). Enter zero if the result is zero or less. If you are filing Form 4626 for a member of a controlled group, this calculation must be performed on a consolidated basis.

Example 1: Corporation C determines its line 5a ANBI to be $25,000. If its line 4 were $10,000, it would enter the $15,000 difference on line 5b. If its line 4 were instead $30,000, it would enter zero on line 5b since the difference is less than zero. Finally, if its line 4 were negative $100,000, it would enter the difference of $125,000 on line 5b.

Example 2: Corporation D determines its line 5a ANBI to be negative $25,000. If its line 4 were negative $30,000, it would enter the difference of $5,000 on line 5b.

See Temporary Regulations section 1.56-1T(a)(4) for additional information and examples.

Line 7—Alternative tax net operating loss deduction.— Your alternative tax net operating loss deduction **(ATNOLD)** is the NOL you determined for regular tax purposes under section 172, except that:

(1) In the case of a loss year beginning after 1986, the NOL you determined for regular tax purposes from such year must be: **(a)** reduced by the positive AMT adjustments and increased by the negative AMT adjustments provided in sections 56 and 58, and **(b)** reduced by the tax preference items you determined under section 57 (but only to the extent they increased the NOL you determined for regular tax purposes).

(2) In applying the rules outlined in section 172(b)(2) (regarding the determination of the amount of carrybacks and carryovers), you must use the modification to those rules described in section 56(d)(1)(B)(ii).

(3) If, for any tax year beginning before 1987, you have minimum tax that was deferred under section 56(b) (as in effect before the enactment of the Tax Reform Act of 1986) and that deferred tax has not been paid, the amount of NOL carryovers that you may carryover to this year for AMT purposes must be reduced by your tax preference items that gave rise to the deferred add-on minimum tax. (Section 701(f)(2)(B) of the Tax Reform Act of 1986.)

(4) Your ATNOLD is limited to 90% of your AMTI computed without regard to your ATNOLD. Therefore, enter on line 7 the smaller of the ATNOLD or 90% of the amount on line 6.

Note: *The amount of any NOL that is not deductible for AMT purposes may be carried back or carried over in accordance with the rules outlined in section 172(b). The amount carried back or carried over for AMT purposes is likely to differ from the amount (if any) that is carried back or carried over for regular tax purposes; therefore, it is essential that you retain adequate records for both AMT purposes and regular tax purposes.*

Lines 9a and b.—If you are preparing Form 4626 for a member of a controlled group, see section 1561 for the limitation on the $40,000 AMT exemption amount.

Line 12—Alternative minimum tax foreign tax credit.—Refigure the foreign tax credit you claimed for regular tax purposes as follows:

(1) For each separate limitation, recompute both the numerator (foreign source taxable income) and the denominator (worldwide taxable income) of the limitation fraction by taking into account your AMT adjustments and tax preference items. **Note:** *Any increase in AMTI by reason of the excess book income adjustment "shall have the same proportionate source (and character) as AMTI determined without regard to such increase." (Section 59(a)(1)(C));*

(2) Substitute your line 11 AMTI for the "total U.S. income tax against which the credit is allowed";

(3) For each separate limitation, multiply the fraction in (1) above by your AMTI in (2) above to determine your recomputed limitation;

(4) For each separate limitation, take the lesser of the total foreign taxes paid with respect to that separate limitation and the recomputed limitation from (3) above; and

(5) Add the credits you recomputed for each separate limitation and enter the result on line 12.

Note: *For purposes of determining whether any income is high-taxed (and therefore belongs in the "high withholding tax interest" separate limitation defined in section 904(d)(2)(B)), the AMT rate is to be used instead of the regular rate.*

Your AMT foreign tax credit cannot be more than the amount on line 11 less 10% of the amount that would be on that line if Form 4626 were recomputed using zero on line 7.

Note: *With respect to any separate limitation, any AMT foreign tax credit you cannot claim (because of the limitation fraction or the 90% limit discussed above) may be carried back or carried over in accordance with the rules outlined in section 904(c). However, foreign taxes paid or accrued in a tax year beginning after 1986 that are carried back (for regular tax purposes) to offset tax in a tax year beginning before 1987 may not be used in computing the AMT foreign tax credit for the current tax year. In other words, any such taxes that you carried back for regular tax purposes must be carried back for AMT purposes or they will be lost.*

Note also: *The amount of any foreign tax credit that you cannot claim (and is therefore carried back or carried over) for AMT purposes is likely to differ from the amount (if any) that is carried back or carried over for regular tax purposes. Therefore, it is essential that you retain adequate records for both AMT purposes and regular tax purposes.*

Line 14—General business credit allowed against AMT.—Enter the amount from line 23 of the worksheet in the Form 3800 Instructions.

Line 15.—Enter your regular tax liability for the tax year (as defined in section 26(b)) less your foreign tax credit and your possessions tax credit. Be sure to **include** any tax on accumulation distribution of trusts you computed on Form 4970. **Do not include** any recapture of investment credit you computed on Form 4255 or any recapture of low-income housing credit you computed on Form 8611. If you file Form 1120, this is line 3, Schedule J, minus the sum of lines 4a and 4b, Schedule J.

Line 17—Environmental tax.—*If you are preparing Form 4626 for a regulated investment company or a real estate investment trust, skip line 17 (it does not apply).*

Compute your environmental tax as follows:

(1) Complete your tax return (without the environmental tax deduction) through taxable income before the NOL deduction. (If you filed Form 1120, this would be line 28 minus line 29b.)

(2) Using the result in (1), complete Form 4626 through line 5, skip lines 7 through 16, and figure your environmental tax on line 17.

(3) Using the result in (2), complete your tax return through taxable income before the NOL deduction. Then figure your AMT on Form 4626 by completing lines 1 through 16.

If you are preparing Form 4626 for a member of a controlled group, see section 1561 for the limitation on the environmental tax exemption.

Form **4782**

(Rev. November 1988)

Department of the Treasury
Internal Revenue Service

Employee Moving Expense Information

Payments made during the calendar year 19 ......

OMB No. 1545-0182
Expires 8-31-90

Do not file.
Keep for your records.

Name of employee

Social security number

Moving Expense Payments

Type of moving expense	**a.** Amount paid to employee	**b.** Amount paid to a third party for employee's benefit and value of services furnished in kind	**c.** Total (Add columns **a.** and **b.**)
Section A.—Transportation of Household Goods			
1 Transportation and storage for household goods and personal effects			
Section B.—Expenses of Moving From Old to New Home			
2 Travel and lodging **not** including meals			
3 Meal payments for travel			
Section C.—Pre-move Househunting Expenses			
4 Travel and lodging **not** including meals			
5 Meal payments for househunting trip			
Section D.—Temporary Quarters For Any 30 Days in a Row After Obtaining Employment (90 days for a foreign move)			
6 Temporary quarters **not** including meals			
7 Meal payments for temporary quarters			
Section E.—Qualified Real Estate Expenses			
8 Qualified expenses of selling, buying, or leasing a home			
Section F.—Miscellaneous Payments			
9 List all other payments (specify)			

10 Total moving expense payments. Add lines 1 through 9 ▶
Note: *This amount **must** be included in employee's income.*

For Paperwork Reduction Act Notice, see back of form.

Instructions for Employer

Paperwork Reduction Act Notice

This information is required to carry out the Internal Revenue laws of the United States. It is needed to ensure that taxpayers are complying with these laws. You are required to provide this information.

The time needed to complete this form will vary depending on individual circumstances. The estimated time average is 7 hours and 39 minutes.

If you have comments concerning the accuracy of this time estimate or suggestions for making this form more simple, we would be happy to hear from you. You can write to the **Internal Revenue Service,** Washington, DC 20224, Attention: IRS Reports Clearance Officer, TR FP; or the **Office of Management and Budget,** Paperwork Reduction Project, Washington, DC 20503.

Change You Should Note

Recent law changes put a new limitation on the amount of reimbursed meal expenses that may be deducted as moving expenses. Because of this change, you are no longer required to designate the amount of meal payments from which you did not withhold income tax.

Purpose of Form

You are required to give your employees a statement showing a detailed breakdown of reimbursements or payments of moving expenses. Form 4782 may be used for this purpose or you may use your own form as long as it provides the same information as Form 4782. A separate form is required for each move made by an employee for which reimbursement or payment is made.

Form W-2

Any payments you made for an employee's move (including the value of any services furnished in kind) must be included in box 10, "Wages, tips, other compensation," on the employee's Form W-2.

Payments for moving expenses that are deductible by your employee are not subject to withholding.

Payments for moving expenses that are not deductible by your employee are subject to withholding.

When To Give the Information

You must give Form 4782 (or your own form) to your employee by January 31 following the calendar year in which the employee received the reimbursement or payment. However, if the employee stops working for you before December 31 and submits a written request to receive the form earlier, you must give the completed form to the former employee within 30 days after you receive the request if the 30-day period ends before the regular January 31 deadline.

Additional Information

For more information on withholding requirements get **Pub. 15**, Circular E, Employer's Tax Guide. For assistance in determining what moving expenses would be deductible to your employee, get the forms and instructions for **Form 3903,** Moving Expenses; **Form 3903F**, Foreign Moving Expenses; or **Pub. 521**, Moving Expenses.

General Information for Employees

Change You Should Note

Recent law changes put a new limitation on the amount of reimbursed meal expenses that are deductible as moving expenses. Now only 80% of reimbursed meal expenses are deductible.

Purpose of Form

This form is furnished by your employer to give you the necessary information to help you figure your moving expense deduction. The form shows the amount of any reimbursement made to you, payments made to a third party for your benefit, and the value of services furnished in kind for moving expenses. You should receive a separate form for each move that you made during the calendar year for which you receive any reimbursement or during which payment is made for your benefit.

Caution: *Do not use this form as verification of your moving expenses. It reports only amounts your employer included in your income for moving expenses, which may be different than the amounts you actually spent.*

Allowance of Deduction

If you itemize your deductions, and also meet the "distance and time" tests explained below, you may deduct the reasonable expenses you paid or incurred during the tax year to move to a new principal place of work. If you incurred expenses shown on this form, and they qualify as deductible moving expenses, you may include them in figuring your moving expense deduction.

For moves within or to the United States, use **Form 3903**, Moving Expenses, to claim the deduction. Use **Form 3903F**, Foreign Moving Expenses, to claim the deduction if you moved outside the United States or its possessions.

Conditions for Allowance

Generally, you must meet the following tests to deduct moving expenses:

Distance Test.—Your new work place must be at least 35 miles farther from your old home than your old work place was.

Time Test.—If you are an employee, you must work full time for at least 39 weeks during the 12 months right after you move.

Additional Information

See the form instructions and **Pub. 521**, Moving Expenses, for detailed moving expense information, including which expenses qualify and what are reasonable expenses.

Form **4952**

Department of the Treasury
Internal Revenue Service

Investment Interest Expense Deduction

▶ See separate instructions.
▶ Attach to your tax return.

OMB No. 1545-0191

1988

Attachment Sequence No. 72

Name(s) as shown on return

Social security number or employer identification number

Kind of return . . . . ▶ ☐ Individual ☐ Estate ☐ Trust

1 Interest expense on investment debts paid or accrued in 1988. See instructions			1
2 Investment income minus investment expenses. See instructions	2		
3 Phase-in adjustment from passive activities. See instructions	3		
4 Net investment income. Subtract line 3 from line 2. If -0- or less, enter -0-			4
5 Subtract line 4 from line 1. If -0- or less, enter -0- here and on line 13, and skip lines 6 through 12			5
6 Enter the amount from line 1, but see the instructions		6	
7 Enter the amount from line 2, but see the instructions	7		
8a Individuals, enter $10,000; ($5,000 if married filing separate returns)	8a		
b Estates, enter $10,000; trusts, enter -0-	8b		
9 Add lines 7 and 8		9	
10 Subtract line 9 from line 6. If -0- or less, enter -0-		10	
11 Subtract line 10 from line 5. If -0- or less, enter -0-			11
12 Multiply line 11 by 60% (.6)			12
13 Add lines 10 and 12			13
14 Enter amount from line 1		14	
15 Enter the smaller of line 5 or line 13		15	
16 Subtract line 15 from line 14		16	
17 Disallowed investment interest expense from 1987 Form 4952, line 14. If -0-, enter -0- here and on lines 21 and 22, and skip lines 18 through 20. See instructions		17	
18 Enter amount from line 4. If -0- or less, enter -0- here and on line 20	18		
19 Enter amount from line 1	19		
20 Subtract line 19 from line 18. If -0- or less, enter -0-	20		
21 Enter the smaller of line 17 or line 20		21	
22 Subtract line 21 from line 17		22	
23 **Disallowed investment interest expense.** Add lines 15 and 22			23
24 **Allowed investment interest expense.** Add lines 16 and 21. See instructions			24

For Paperwork Reduction Act Notice, see page 1 of separate instructions.

1988

Department of the Treasury
Internal Revenue Service

Instructions for Form 4952

Investment Interest Expense Deduction

(Section references are to the Internal Revenue Code unless otherwise noted.)

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	1 hr., 5 min.
Learning about the law or the form	22 min.
Preparing the form	1 hr., 7 min.
Copying, assembling, and sending the form to IRS	20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to either **IRS** or the **Office of Management and Budget** at the addresses listed in the instructions of the tax return with which this form is filed.

Purpose of Form

File this form if you paid or accrued interest on a loan and you used the proceeds of the loan to acquire property held for investment (defined later). The form is used to figure how much of this interest is deductible for 1988.

For more information, get **Pub. 550,** Investment Income and Expenses.

Changes You Should Note

Recent legislation changed the computation of the investment interest expense deduction effective for tax years beginning after 1986. As a result, some people will have to file an amended return for 1987 to refigure their investment interest expense deduction for 1987 and their investment interest carryover to 1988.

You must file an amended return for 1987 **only** if you had disallowed investment interest expense in 1987 (that is, you had an entry on line 14 of your 1987 Form 4952), **AND** either of the following applies:

(1) For 1987 you had investment interest expense, investment income, or investment expense, relating to the conduct of a trade or business activity that was not a passive activity and in which you did not materially participate. (An example is a working interest in an oil or gas property that is not passive and in which you did not materially participate); **OR**

(2) For 1987 you had a phase-in adjustment from a passive activity other than a rental real estate activity with active participation (that is, line 2c of your 1987 **Form 8582,** Passive Activity Loss Limitations, was a loss and you had an amount entered on line 15 of your 1987 Form 8582).

If the above conditions apply to you, file **Form 1040X,** Amended U.S. Individual Income Tax Return, or an amended **Form 1041,** U.S. Fiduciary Income Tax Return. Refigure your investment interest expense for 1987 and your investment interest expense carryover to 1988 by modifying a 1988 Form 4952 as explained in the instructions for line 17.

The new law also allows you to make an election to treat investment interest expense from a passive activity as either passive activity interest or as investment interest expense. The election applies only to investment interest that: **1)** was disallowed for 1986 and carried forward to 1987; and **2)** that would have been treated as a passive activity deduction for 1986 had the passive activity rules been in effect at that time.

If you elect to treat the interest as passive activity interest, refigure your allowable investment interest expense for 1987 using a 1988 Form 4952. Do not include the passive interest expense on that form. Also refigure your 1987 passive activity loss allowed, using a 1988 Form 8582. **Do** include the passive interest expense on that form. Attach those forms to and file Form 1040X (or an amended Form 1041, if it applies). See the Form 8582 instructions under **Changes You Should Note** to see how to modify the 1988 Forms 4952 and 8582 for this purpose.

General Instructions

Source of Amounts To Include.—Include your own investment interest expense and net investment income and expense and your share of investment income, expense, and interest expense reported to you on the Schedule K-1 that you got from a partnership, an S corporation, or an estate or trust.

Allocation of Interest Expense Under Regulations Section 1.163-8T.—If you paid or accrued interest on a loan and you used the proceeds of the loan for more than one purpose, you may have to allocate the interest paid. This is necessary because of the different rules that apply to investment interest, personal interest, trade or business interest, home mortgage interest, and passive activity interest. See Pub. 550.

Investment Income.—Investment income includes interest, dividends, annuities, royalties (not derived in the ordinary course of a trade of business) and net gain from the sale or exchange of property held for investment. Net income from the following passive activities is treated as investment income:

(1) rental of substantially nondepreciable property;

(2) equity-financed lending activities; and

(3) acquisition of certain interests in a passthrough entity licensing intangible property.

See Regulations section 1.469-2T(f)(10).

Property Held for Investment.—Property held for investment includes property that produces investment income. However, property held for investment does not include property used in a passive activity. See **Passive Activities,** below, for more information.

Property held for investment also includes an interest in an activity of conducting a trade or business in which you did not materially participate and that is not a passive activity. For example, a working interest in an oil or gas property which is not a passive activity is property held for investment if you did not materially participate in the activity.

Passive Activities.—Investment interest expense does not include any interest expense that is taken into account in determining your income or loss from a passive activity. However, interest expense that is properly allocable to portfolio income is investment interest expense and is not taken into account in determining your income or loss from a passive activity. Portfolio income includes interest, dividends, annuities, royalties (not derived in the ordinary course of a trade or business), and net gain from the sale or exchange of property held for investment. For the definition of *passive activity,* see the instructions for Schedule E (Form 1040).

Publicly Traded Partnerships.—Investment income includes net passive income from passive activities of a publicly traded partnership (as defined in section 469(k)(2)).

Specific Instructions

Line 1—Investment interest expense.—Enter the investment interest you paid or accrued during the tax year, regardless of when the indebtedness was incurred. Include interest paid or accrued on a loan (or part of a loan) that was used to acquire property held for investment. Include amortization of bond premium on bonds purchased after 10-22-86 if the interest income from the bond is not tax exempt. Investment interest expense does not include the following:

- home mortgage interest;
- interest expense that is properly allocable to a passive activity (see **Passive Activities** above);
- any interest expense that is capitalized, such as construction interest subject to section 263A; or
- interest expense relating to tax-exempt interest income under section 265.

Line 2—Investment income reduced by investment expenses.—Figure your total gross investment income and reduce that amount by your investment expenses, other than investment interest expense.

Investment Income.—Investment income is your total gross income from your investment property, plus any net gain attributable to the disposition of property held for investment. See **Investment Income, Property Held for Investment,** and **Passive Activities** above. Investment income does not include any income that is taken into account in determining your income or loss from a passive activity.

Investment Expenses.—Investment expenses are your expenses, other than interest expense, directly connected with the production of investment income. For example, depreciation or depletion allowed on assets that produce investment income is an investment expense.

Investment expenses do not include any expense taken into account in determining your income or loss from a passive activity.

If you have investment expenses that are included as a miscellaneous itemized deduction on line 21 of Schedule A (Form 1040), you may not be able to use all of the amount for purposes of this line 2. The 2% adjusted gross income limitation on Schedule A may reduce the amount.

You can figure this amount by comparing the amount of the investment expenses included on line 21 of Schedule A with the total miscellaneous expenses on line 24 of Schedule A. The smaller of the investment expenses included on line 21 or the total of line 24 is the amount to include as investment expense for this line 2. For example, assume line 21 includes investment expenses of $3,000, and line 24 is $1,300 after the 2% adjusted gross income limitation. Investment expenses of $1,300 are allowed for purposes of this line 2. If investment expenses of $800 were included on line 21 and line 24 was $1,300, investment expenses of $800 would be allowed. If you have investment expenses other than those on line 21 of Schedule A, also include those amounts.

If you held an interest in a publicly offered mutual fund, that fund will, in most cases, provide you with your dividend income or capital gain distribution reduced by investment expenses. If this is the case, just include the net dividend income with the gross investment income, include the capital gain distribution in the computation of net gain attributable to the sale or exchange of property held for investment, and subtract any other investment expenses when figuring the amount for this line.

Line 3—Phase-in of passive activity losses.— Enter on this line any loss attributable to the phase-in allowed from a passive activity that is not a rental real estate activity with active participation.

Note: *Form 8582 must be completed before you can get the figure for this line. See* ***Computing Modified Adjusted Gross Income on Form 8582,*** *below, to see if your allowable investment interest expense affects the computation of modified adjusted gross income for line 6 of Form 8582.*

If you completed Form 8582 and line 2c of that form shows a loss and line 15 of that form also has an amount, you will have to include all or part of the amount from line 15 of Form 8582 on line 3 of Form 4952.

If you had a loss from a publicly traded partnership (PTP), include on this line 3, the loss attributable to the phase-in for each partnership. See example below.

If the amount on line 2c of Form 8582 is equal to or greater than the amount on line 12, all of the phase-in on line 15 is attributable to the amount on line 2c. Enter the amount from line 15 of Form 8582 on line 3 of this form.

If you have a loss on line 2c of Form 8582, as well as a loss attributable to rental real estate activities with active participation shown on line 1c, you may use only part of the amount on line 15. Figure the amount by dividing line 2c by line 12 and multiplying line 15 by the result.

Example. Taxpayer A has a loss of ($30,000) on line 1c and a loss of ($50,000) on line 2c of Form 8582. Line 3 of Form 8582 shows a total loss of ($80,000), and line 9 shows that the full $25,000 special allowance was allowed. The loss attributable to the phase-in was computed on lines 10 through 15 of Form 8582 as follows:

10. Combine lines 1c and 2c . .	80,000
11. Special allowance	25,000
12. Subtract line 11 from line 10 .	55,000
13. Subtract line 9 from line 3 (80,000 - 25,000)	55,000
14. Enter the smaller of line 12 or line 13	55,000
15. Multiply line 14 by 40% . . .	22,000

Allocate the $22,000 on line 15 to line 2c as follows:

$$\frac{\text{line 2c}}{\text{line 12}} \times \text{line 15} = \text{phase-in adjustment for line 3 of Form 4952}$$

$$\frac{\$50,000}{\$55,000} \times \$22,000 = \$20,000$$

Taxpayer A would include $20,000 on line 3 of Form 4952. If Taxpayer A also had a ($3,500) pre-enactment loss from a publicly traded partnership, the $1,400 pre-enactment loss allowed (($3,500) × .4 = ($1,400)) plus the $20,000 would go on line 3.

Note: *If you completed Worksheets A and B for significant participation passive activities in the Form 8582 instructions, the line 12 adjustment should also be made to line 2c before you make the above computation.*

Line 6—Investment interest expense.—Enter on line 6 the amount from line 1. However, reduce that amount by any interest expense from a trade or business:

(a) that is not a passive activity, and

(b) in which you do not materially participate.

Line 7—Investment income reduced by investment expenses.—Enter on line 7 the amount from line 2. However, reduce that amount by any investment income from, and increase the amount by any investment expenses from, a trade or business:

(a) that is not a passive activity, and

(b) in which you do not materially participate.

Line 17.—Recent legislation changed the computation of the investment interest expense deduction effective for tax years beginning after 1986. As a result, some people will have to refigure their investment interest expense carryover to 1988 before making an entry on this line. See **Changes You Should Note** on page 1 to see if this applies to you. If it **does not** apply to you, enter on line 17 the amount from line 14 of your 1987 Form 4952.

If it **does** apply to you, you need to refigure your investment interest expense deduction for 1987 and the carryover to 1988. Do this by using a 1988 Form 4952 and amending it for 1987 as follows:

a. In large letters write **AMENDED** on the top of a 1988 Form 4952.

b. Each place the year **1988** appears on the form, change it to **1987.**

c. On line 12, change **60% (.60)** to **35% (.35).**

d. Enter on line 17 the amount from line 4 of the original Form 4952 that you filed for 1987.

Enter on line 17 of your 1988 Form 4952, the amount from line 23 of the amended 1987 Form 4952 that you prepared in accordance with the above instructions.

For 1987, file **Form 1040X,** Amended U.S. Individual Income Tax Return, or an amended **Form 1041,** U.S. Fiduciary Income Tax Return. Attach the amended 1987 Form 4952 to the amended return. Do not attach it to your 1988 tax return.

Line 23.—This is your disallowed investment interest. Carry this forward to Form 4952 for 1989.

Line 24.—This is your allowable investment interest. Individuals, deduct it as an itemized deduction on line 11, Schedule A (Form 1040), even if all or part of it is attributable to a partnership or an S corporation. However, the allowable portion of investment interest expense attributable to royalties is deductible on Schedule E (Form 1040). Estates and trusts, deduct the allowable part on the interest expense line of your tax return.

Form 6198.—If you have investment interest for an activity for which you are not at risk, you must also use **Form 6198,** Computation of Deductible Loss From an Activity Described in Section 465(c), to figure your deductible investment interest expense. After you figure the allowable investment interest expense on Form 4952, take the portion attributable to the at-risk activity to line 4 of Form 6198. Reduce line 24 of Form 4952 by the amount taken to Form 6198. See Form 6198 and its separate instructions for more information, especially the instructions for line 4 of that form.

Form 6251.—Allowable investment interest expense is an adjustment for alternative minimum tax purposes. Get **Form 6251,** Alternative Minimum Tax—Individuals, or **Form 8656,** Alternative Minimum Tax—Fiduciaries.

Computing Modified Adjusted Gross Income on Form 8582.—To compute modified adjusted gross income on line 6 of Form 8582, you must know how much investment interest expense is allowed that is attributable to royalty income. Skip these instructions if you do not have interest expense attributable to royalties, or if line 2c of Form 8582 shows income or no entry.

If you have investment interest expense attributable to royalty income, and you also have a loss on line 2c of Form 8582, complete Form 4952 as you usually would, but enter -0- on line 3 of Form 4952. Use the allowable investment interest expense attributable to the royalty income that is included on that Form 4952 to figure gain or loss for purposes of modified adjusted gross income on Form 8582. When Form 8582 is completed, refigure Form 4952 in the regular manner with the phase-in adjustment on line 3. Take to Schedule E the allowable portion of investment interest expense attributable to the royalty income that is included on the refigured Form 4952.

Form **4972**

Department of the Treasury
Internal Revenue Service

Tax on Lump-Sum Distributions

(Use This Form Only for Lump-Sum Distributions From Qualified Retirement Plans)

▶ **Attach to Form 1040 or Form 1041.** ▶ **See separate Instructions.**

OMB No. 1545-0193

1988

Attachment Sequence No. **28**

Name(s) as shown on return	**Identifying number**

Part I Complete this part to see if you qualify to use Form 4972

			Yes	No
1	Did you rollover any part of the distribution?	1		
	If "Yes," do not complete the rest of this form.	▨	▨	▨
2	Was the participant age 50 or older on January 1, 1986?	2		
3	Was this a lump-sum distribution from a qualifying pension, profit-sharing or stock bonus plan?	3		
	If you answered "No" to 2 **or** 3, do not complete the rest of this form.	▨	▨	▨
4	Was the employee a participant in the plan for at least 5 years before the year of the distribution?	4		
5	Is this a distribution paid to a beneficiary of an employee who died?	5		
	If you answered "No" to 4 **and** 5, do not complete the rest of this form.	▨	▨	▨
6	Did you quit, retire, get laid off, or get fired from your job before receiving the distribution?	6		
7	Were you self-employed or an owner-employee and became disabled? (See Instructions under Distributions That Qualify)	7		
8	Were you 59½ or older at the time of the distribution?	8		
	If you answered "No" to **all** questions 5 through 8, do not complete the rest of this form.	▨	▨	▨

If you qualify to use this form, you may elect to use Part II, Part III, or Part IV; or elect to use Part II and Part III, or Part II and Part IV.

Part II Complete this part to choose the 20% capital gain election (See Instructions for a different capital gain election.)

Check this box to choose the 20% capital gain election ▶ ☐

1	Capital gain part from Box 3 of Form 1099-R. If you did not check the box above, enter zero	1	
2	Multiply line 1 by 20% (.20) and enter here. If you do not elect to use Part III or Part IV, also enter the amount on Form 1040, line 39, or Form 1041, Schedule G, line 1b	2	

Part III Complete this part to choose the 5-year averaging method

1	Ordinary income from Form 1099-R, Box 2 minus Box 3. If you did not check the box in Part II, enter the amount from Box 2 of Form 1099-R (taxable amount)			1	
2	Death benefit exclusion (see Instructions)			2	
3	Subtract line 2 from line 1 (total taxable amount)			3	
4	Current actuarial value of annuity, if applicable (from Form 1099-R, Box 8)			4	
5	Add lines 3 and 4 (adjusted total taxable income). If this amount is $70,000 or more, skip lines 6 through 9, and enter this amount on line 10			5	
6	Multiply line 5 by 50% (.50), but do not enter more than $10,000		6	▨	
7	Subtract $20,000 from line 5. Enter difference. If line 5 is $20,000 or less, enter zero	7	▨	▨	
8	Multiply line 7 by 20% (.20)		8	▨	
9	Subtract line 8 from line 6 (minimum distribution allowance)			9	
10	Subtract line 9 from line 5			10	
11	Federal estate tax attributable to lump-sum distribution. Do not deduct on Form 1040 or Form 1041 the amount attributable to the ordinary income entered on line 1 (see Instructions)			11	
12	Subtract line 11 from line 10			12	
13	Multiply line 12 by 20% (.20)			13	
14	Tax on amount on line 13. Use Tax Rate Schedule X (for single taxpayers) in Form 1040 Instructions (see Instructions)			14	
15	Multiply line 14 by 5. If no entry on line 4, skip lines 16 through 21, and enter this amount on line 22			15	
16	Divide line 4 by line 5 and enter the result as a decimal (see Instructions)			16	
17	Multiply line 9 by the decimal amount on line 16			17	
18	Subtract line 17 from line 4			18	
19	Multiply line 18 by 20% (.20)			19	
20	Tax on amount on line 19. Use Tax Rate Schedule X (for single taxpayers) in Form 1040 Instructions			20	
21	Multiply line 20 by 5			21	
22	Subtract line 21 from line 15			22	
23	Tax on lump-sum distribution (add Part II, line 2, and Part III, line 22). Enter on Form 1040, line 39, or Form 1041, Schedule G, line 1b ▶			23	

For Paperwork Reduction Act Notice, see separate Instructions.

Form **4972** (1988)

Part IV Complete this part to choose the 10-year averaging method

1	Ordinary income part from Form 1099-R, Box 2 minus Box 3. If you did not check the box in Part II, enter the amount from Box 2 of Form 1099-R (taxable amount)	1	
2	Death benefit exclusion (see Instructions)	2	
3	Subtract line 2 from line 1 (total taxable amount)	3	
4	Current actuarial value of annuity, if applicable (from Form 1099-R, Box 8)	4	
5	Add lines 3 and 4 (adjusted total taxable amount). If this amount is $70,000 or more, skip lines 6 through 9, and enter this amount on line 10	5	
6	Multiply line 5 by 50% (.50), but do not enter more than $10,000	6	
7	Subtract $20,000 from line 5. Enter difference. If line 5 is $20,000 or less, enter zero	7	
8	Multiply line 7 by 20% (.20)	8	
9	Subtract line 8 from line 6 (minimum distribution allowance)	9	
10	Subtract line 9 from line 5	10	
11	Federal estate tax attributable to lump-sum distribution. Do not deduct on Form 1040 or Form 1041 the amount attributable to the ordinary income entered on line 1 (see Instructions)	11	
12	Subtract line 11 from line 10	12	
13	Multiply line 12 by 10% (.10)	13	
14	Tax on amount on line 13. Use Tax Rate Schedule in Form 4972 Instructions	14	
15	Multiply line 14 by 10. If no entry on line 4, skip lines 16 through 21, and enter this amount on line 22	15	
16	Divide line 4 by line 5 and enter the result as a decimal (see Instructions)	16	
17	Multiply line 9 by the decimal amount on line 16	17	
18	Subtract line 17 from line 4	18	
19	Multiply line 18 by 10% (.10)	19	
20	Tax on amount on line 19. Use Tax Rate Schedule in Form 4972 Instructions	20	
21	Multiply line 20 by 10	21	
22	Subtract line 21 from line 15	22	
23	Tax on lump-sum distribution (add Part II, line 2, and Part IV, line 22). Enter on Form 1040, line 39, or Form 1041, Schedule G, line 1b ▶	23	

1988 Department of the Treasury
Internal Revenue Service

Instructions for Form 4972

Tax on Lump-Sum Distributions

(Section references are to the Internal Revenue Code.)

General Instructions

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

The time needed to complete this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	33 min.
Learning about the law or the form	18 min.
Preparing the form	1 hr., 19 min.
Copying, assembling, and sending the form to IRS	35 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to either **IRS** or the **Office of Management and Budget,** at the addresses listed in the instructions of the tax return with which this form is filed.

A Change to Note.— If you are a spouse or former spouse who received a distribution as an alternative payee under a qualified domestic relations order, you can choose 5- or 10-year averaging to figure the tax on that income. The distribution must meet the other rules listed under **Distributions That Qualify**. This change was made by the Technical and Miscellaneous Revenue Act of 1988, and applies to taxable years ending after December 31, 1984.

Purpose of Form.—If you received a lump-sum distribution and were age 50 or older on January 1, 1986, your tax will usually be less if you can use Form 4972. **If you were not age 50 or older on January 1, 1986, you cannot use this form.** (For lump-sum distributions paid after an employee's death, see below.) If you receive an early distribution (before age 59 ½) from a qualified retirement plan, you may have to pay an additional 10% tax. File **Form 5329**, Return for Individual Retirement Arrangement and Qualified Retirement Plans Taxes, unless the distribution meets one of the exceptions. See the Instructions for Form 5329 and **Pub. 575**, Pension and Annuity Income.

Form 4972 is for use with Form 1040 for an individual or with Form 1041 for an estate or trust. Form 4972 is used for three purposes:

(1) To choose the 20% capital gain method by checking the box and completing Part II;

(2) To choose the 5- or 10-year averaging method by completing Part III or Part IV;

(3) To figure tax with the 5- or 10-year averaging method. With these methods, the ordinary income part of the lump sum is taxed as if you received it in equal parts over 5 or 10 years.

If you use any method mentioned above, you must use it for all lump-sum distributions you receive in one tax year.

If you do not use the 5- or 10-year averaging method, report the ordinary income amount of the lump sum on Form 1040, line 17b, or on Form 1041, line 8. If you do not make either capital gain election (described under **Capital Gain Elections**), combine the capital gain with the ordinary income (Form 1099-R, Box 2). Do not put an amount on Form 1040, line 17b, or on Form 1041, line 8, that you use in any of the tax computations on Form 4972.

The payer should have given you a **Form 1099-R** or other statement that shows the separate parts of your distribution. The amounts you will use from Form 1099-R in filling out Form 4972 are capital gain (Box 3); ordinary income (Box 2 minus Box 3); total of ordinary income plus capital gain (Box 2); and, if it applies, the current actuarial value of an annuity (Box 8). If applicable, get the amount of Federal estate tax paid attributable to the taxable part of the lump-sum distribution from the person administering the deceased employee's or self-employed individual's estate.

If you need more information, get Pub. 575.

Filing Form 4972 After Employee's Death.—If a lump-sum distribution is paid out after an employee's death, and the employee was age 50 or older on January 1, 1986, the recipient of the distribution can choose the 20% capital gain method, or the 5- or 10-year averaging method.

Distributions That Qualify.—For you to use the 5- or 10-year averaging method, you had to be age 50 or older on January 1, 1986, and the lump sum must have been distributed under **all** the following circumstances:

(1) It came from a qualified pension, profit-sharing, or stock bonus plan.

(2) It came from all the employer's qualified plans of one kind (pension, profit-sharing, or stock bonus) in which the employee had funds.

(3) It was for the full amount credited to the employee. For this purpose, the balance to the credit of the employee does not include the accumulated deductible employee contributions under the plan.

(4) It was paid within a single tax year.

(5) It was paid in **any** of the following cases provided the employee was age 50 or older on January 1, 1986:

a. The employee died.

b. The employee, who was a common-law employee, quit, retired, was laid off, or was fired from the job. A common-law employee is anyone who performs services that an employer has the right to control (what will be done and how) and whom the employer has the right to fire.

c. The self-employed individual or owner-employee became disabled as defined in section 72(m)(7).

Distributions That Do Not Qualify.—The following distributions do not qualify for the 5- or 10-year averaging method:

(1) Employee was under age 50 on January 1, 1986;

(2) U.S. Retirement Bonds distributed with the lump sum;

(3) Any distribution made before the employee has been a participant in the plan for 5 tax years before the tax year of the distribution, **unless it was paid because the employee died;**

(4) The current actuarial value of any annuity contract included in the lump sum (the payer's statement should show this amount, which you should use only to figure tax on the ordinary income part of the distribution);

(5) Any distribution to a 5-percent owner which is subject to penalties under section 72(m)(5)(A);

(6) A distribution, described in section 402(a)(6)(E), from any other pension plan maintained by an employer, if the recipient elected after December 31, 1978, to roll over a total distribution from the employer's money purchase plan into an Individual Retirement Arrangement (IRA) or another qualified plan;

(7) A distribution from an Individual Retirement Arrangement (IRA);

(8) Redemption proceeds of bonds rolled over tax free to a qualified pension plan, etc., from a qualified bond purchase plan; and

(9) A distribution from a qualified pension or annuity plan when the employee or the employee's surviving spouse received a partial distribution from the same plan (or another plan of the employer required to be aggregated for the lump-sum distribution rules), and the proceeds of the previous distribution were rolled over tax free to an Individual Retirement Arrangement (IRA).

How Often You Can Choose.—If you make an election this year, you cannot make an election another year with respect to another lump-sum distribution. For example, if you elect the 5- or 10- year averaging method this year, you cannot make either capital gain election or choose 5- or 10- year averaging another year. Similarly, if you make either capital gain election, you cannot make a capital gain or 5- or 10- year averaging election in another year.

When You Can Choose.—If you choose the 20% capital gain method or the 5- or 10-year averaging method, the Form 4972 can be filed with either an original or an amended return. Generally, you have 3 years from the later of the due date of your tax return or the date you filed your return to choose any of the methods.

Capital Gain Elections.—Only the amount applicable to pre-1974 participation can receive capital gain treatment. The amount that qualifies for capital gain treatment should be shown on Form 1099-R, Box 3. If your distribution includes capital gain, there are two choices you can make: (1) the 20% capital gain election in Part II of Form 4972, or (2) the long-term capital gain election entered on Schedule D (Form 1040), Part II. If you choose (2), enter 95% (.95) of the amount from Form 1099-R, Box 3, on Schedule D (Form 1040), Part II. The remaining part of your distribution (Form 1099-R, Box 2, minus the amount used on Schedule D) should be entered on Form 1040, line 17b, or Form 1041, line 8. However, if you were age 50 or older on January 1, 1986, you may use Part III or IV, Form 4972, instead of Form 1040, line 17b, or Form 1041, line 8.

Tax on Prior Year Lump-Sum Distributions.—If you received another lump-sum distribution or an annuity contract for any year after 1982 and before 1988, and used Form 4972 or Form 5544 for that year, add those distributions to your 1988 distribution and figure your tax on Form 4972 for 1988 using the combined distributions. From that result, subtract the tax you paid on the lump-sum distributions on Form 4972 or 5544 for the earlier years. Show the subtraction under the applicable line. For example, subtract the tax you paid for the earlier years from the tax reported on the combined distributions on Part III or Part IV, line 23.

Multiple Recipient of Lump-Sum Distribution.—If you shared a lump-sum distribution from a qualified retirement plan when not all recipients were trusts (a percentage will be shown in Box 9, Form 1099-R), figure your tax on Form 4972 as follows:

Step 1.—Complete Parts I and II of Form 4972.

Step 2.—On a separate sheet of paper, divide the amounts shown on Form 1099-R, Boxes 2 and 8, by your percentage of distribution shown on Form 1099-R, Box 9. Also subtract Box 3 from Box 2 and divide that amount by your percentage of distribution.

Step 3.—Complete Form 4972, Parts III or IV through line 22. However, where amounts from Boxes 2 and 8, or Box 2 minus Box 3, of Form 1099-R are requested, use the results obtained in step 2 for those amounts.

Step 4.—On a separate sheet of paper, multiply your percentage of distribution by line 22, Part III or IV, Form 4972.

Step 5.—Add the result of step 4 to line 2, Part II, and enter the total on line 23, Part III or IV.

Line-by-Line Instructions

In General

If you received more than one distribution, add them and figure the tax on the total amount.

If you and your spouse are filing a joint return and each has received a lump-sum distribution, complete and file a different Form 4972 for each spouse's election, and combine them on Form 1040, line 39.

If you are filing for a trust that shared the distribution only with other trusts, figure the tax on the whole lump sum first. The trusts then share the tax in the same proportion that they shared the distribution.

Part II

Line 1.—Enter **ZERO** if your distribution does not include capital gain, **OR** if you are not making the 20% capital gain election.

If you **MAKE** the 20% capital gain election but do not take a death benefit exclusion, enter the entire capital gain amount from Form 1099-R, Box 3.

If you checked the box above line 1, and you are taking the death benefit exclusion, figure the amount to enter on line 1 as follows:

Step 1.—On a separate sheet of paper, divide the capital gain amount from Form 1099-R, Box 3, by the amount from Form 1099-R, Box 2 (taxable amount). Enter the result as a decimal.

Step 2.—Multiply your death benefit exclusion amount by the decimal amount figured in Step 1.

Step 3.—Subtract the dollar amount figured in Step 2 from the capital gain amount from Form 1099-R, Box 3. Enter the result on line 1.

The balance of your allowable death benefit exclusion (see Instructions for Parts III and IV, line 2.) should be entered on line 2, Part III or IV, if you choose the 5- or 10-year averaging method.

If any Federal estate tax was paid on the lump-sum distribution, you must decrease the capital gain amount by the amount of tax applicable to it. To figure the amount, multiply the total Federal estate tax paid on the lump-sum distribution by the decimal amount from Step 1. The result is the portion of the Federal estate tax applicable to the capital gain amount. Subtract that amount from the capital gain amount from Form 1099-R, Box 3, and enter the answer on line 1. The remainder of the Federal estate tax goes on line 11, Part III or IV.

Note: *If you take the death benefit exclusion, AND Federal estate tax was paid on the capital gain amount, the capital gain amount must be reduced by both the above methods to figure the correct entry for line 1, Part II.*

Parts III and IV

Line 1.—Community property laws do not apply to figuring tax on the amount you report on line 1. You can elect to include certain net unrealized appreciation in employee securities in net income. To make this election, add the amount that is in Box 6 of Form 1099-R to line 1, and on the dotted line to the left of line 1, write "NUA" (for net unrealized appreciation) and the amount.

Line 2.—If you received the distribution because of the employee's death, you can exclude up to $5,000 of the lump sum from your gross income. If the trust for which you are filing shared the lump sum with other trusts, it will share the exclusion in the same proportion as it shared the distribution. This exclusion applies to the beneficiaries or estates of common-law employees, self-employed individuals, and shareholder-employees who owned more than 2% of an S corporation. Pub. 575 gives more information about the death benefit exclusion.

Line 11.—A beneficiary who receives a lump-sum distribution because of an employee's death must reduce the taxable part of the distribution by any Federal estate tax on the part included in the estate. The reduction is made by entering on line 11 the Federal estate tax attributable to the lump-sum distribution. However, see the Instructions for Part II, line 1.

Part III, Lines 14 and 20.—Use Tax Rate Schedule X (single taxpayers) in the Form 1040 Instructions to figure the tax on the amount on lines 13 and 19 even if you use another method to figure the tax on your other income. If the amount on line 13 or 19 is over $89,560, use the worksheet below the Tax Rate Schedules to figure the tax. Complete the worksheet through line 5 (using the amount for single taxpayers), entering on line 2 of the worksheet the amount from line 13 or 19 of Form 4972. Add the amounts on lines 1 and 5, and enter the total on Form 4972, Part III, line 14 or 20, whichever applies.

Parts III and IV, Line 16.—Decimals should be carried to five places and rounded to four places. Drop amounts 4 and under (.44454 becomes .4445). Round amounts 5 and over up to the next number (.44456 becomes .4446).

Part IV, Lines 14 and 20.—Use this tax rate schedule to complete Part IV, lines 14 and 20.

Form 4972 Tax Rate Schedule

If the amount on Part IV, line 13 or 19, is:		*Enter on Part IV, line 14 or 20*	
Over—	*But Not Over—*		*of the amount over—*
$-0-	$1,190	.... 11%	$-0-
1,190	2,270	$130.90 + 12%	1,190
2,270	4,530	260.50 + 14%	2,270
4,530	6,690	576.90 + 15%	4,530
6,690	9,170	900.90 + 16%	6,690
9,170	11,440	1,297.70 + 18%	9,170
11,440	13,710	1,706.30 + 20%	11,440
13,710	17,160	2,160.30 + 23%	13,710
17,160	22,880	2,953.80 + 26%	17,160
22,880	28,600	4,441.00 + 30%	22,880
28,600	34,320	6,157.00 + 34%	28,600
34,320	42,300	8,101.80 + 38%	34,320
42,300	57,190	11,134.20 + 42%	42,300
57,190	85,790	17,388.00 + 48%	57,190
85,790	....	31,116.00 + 50%	85,790

Form **5329**

Department of the Treasury
Internal Revenue Service

Return for Individual Retirement Arrangement and Qualified Retirement Plans Taxes

(Under Sections 72, 4973, 4974 and 4981A of the Internal Revenue Code)
▶ Attach to Form 1040.

OMB No. 1545-0203
1988
Attachment Sequence No. **29**

Name of individual subject to penalty tax	**Your social security number**
Address (number and street)	
City or town, state, and ZIP code	Check this box if this is an Amended Return ▶ ☐

Part I Excess Contributions Tax for Individual Retirement Arrangements (Section 4973)

Complete this part if, either in this year or in earlier years, you have contributed more to your IRA than is or was allowable as a deduction and you have an excess contribution subject to tax.

1	Excess contributions for 1988 (see instructions). Do not include this amount on Form 1040, lines 25a or b			1	
2	Earlier year excess contributions not previously eliminated (see instructions)	2		▨	
3	Contribution credit. (If your maximum allowable deduction for 1988 is more than your actual contribution, see instructions for line 3; otherwise, enter zero.)	3		▨	
4a	1988 distributions from your IRA account that are includible in taxable income	4a		▨	
b	1987 tax year excess contributions (if any) withdrawn after the due date (including extensions) of your 1987 income tax return, and 1986 and earlier tax year excess contributions withdrawn in 1988	4b		▨	
c	Add lines 3 through 4b	4c		▨	
5	Adjusted earlier year excess contributions (Subtract line 4c from line 2. Enter the result, but not less than zero.)			5	
6	Total excess contributions (add lines 1 and 5)			6	
7	Tax (Enter 6% of line 6 or 6% of the value of your IRA on the last day of 1988, whichever is smaller.) Enter here and on Form 1040, line 52			7	

Part II Tax on Early Distributions (Section 72)

Complete this part if a distribution was made from your IRA, other qualified retirement plans and annuity contracts before you reached age 59½. Also, enter the amount of the distribution on the appropriate line (or lines) of Form 1040.

8	Amount of early distributions you received from an IRA or a qualified retirement plan includible in gross income			8	
9a	Distributions received that are attributable to prohibited transactions	9a		▨	
b	Distributions received that are attributable to the pledging of account as security for a loan	9b		▨	
c	Investments in collectibles treated as distributions	9c		▨	
d	Total (add lines 9a through 9c)			9d	
10a	Total amount of early distributions includible in gross income (add lines 8 and 9d)			10a	
b	Amount excluded from additional tax (Complete Question 1 of "Other Information")	10b		▨	
c	Balance (subtract line 10b from 10a)			10c	
11a	Section 72(t) tax (multiply line 10c by 10% (.10))			11a	
b	Section 72(q) tax (see instructions)			11b	
c	Total section 72 tax due (add lines 11a and b). Enter here and on Form 1040, line 52			11c	

For Paperwork Reduction Act Notice, see page 1 of Instructions.

Form **5329** (1988)

Part III Tax on Excess Accumulation in Individual Retirement Plans (Section 4974)

12	Minimum required distribution	12	
13	Amount actually distributed to you	13	
14	Subtract line 13 from line 12. If line 13 is greater than line 12, enter zero	14	
15	Tax due (multiply line 14 by 50% (.50)). Enter here and on Form 1040, line 52	15	

Part IV Tax on Excess Distributions From Qualified Retirement Plans (Section 4981A)

Lines 16 through 19c are to be completed for regular distributions ONLY.

16	Enter the aggregate amount of regular retirement distributions			16	
17a	Enter the applicable threshold amount ($117,529 or $150,000) (see instructions)	17a			
b	1988 recovery of grandfather amount (from Worksheet)	17b			
c	Enter the greater of line 17a or 17b			17c	
18	Excess distributions (subtract line 17c from line 16)			18	
19a	Tentative tax (multiply line 18 by 15% (.15))			19a	
b	Section 72(t) tax offset (see instructions)			19b	
c	Tax due (subtract line 19b from line 19a). Enter here and on Form 1040, line 52			19c	

Lines 20 through 23c are to be completed for lump-sum distributions ONLY.

20	Enter the aggregate amount of your lump-sum distributions			20	
21a	Enter the applicable threshold amount ($587,645 or $750,000) (see instructions)	21a			
b	1988 recovery of grandfather amount (from Worksheet)	21b			
c	Enter the greater of line 21a or 21b			21c	
22	Excess distributions (subtract line 21c from line 20)			22	
23a	Tentative tax (multiply line 22 by 15% (.15))			23a	
b	Section 72(t) tax offset (see instructions)			23b	
c	Tax due (subtract line 23b from line 23a). Enter here and on Form 1040, line 52			23c	

Other Information

		Yes	No
1	Did you receive any early distributions from a qualified retirement plan (as defined in section 4974(c)) that are excludable from the additional tax?		
	If "Yes," enter the amount to be excluded on line 10b and the appropriate No. for the corresponding Code section contained in the instructions for line 10b that allows the exception here ▶ ____________		
2	Do you elect the special grandfather rule under Regulations section 54.4981A-1T to exempt from tax the portion of distributions treated as a recovery of benefits accrued on or before August 1, 1986? (See Part IV Instructions)		
	If "Yes," enter: (a) your initial grandfather amount ▶ $ ____________ ; and (b) check the grandfather recovery method you are electing: ☐ Discretionary method; ☐ Attained age method		
3	Check here ▶ ☐ if you are electing the discretionary method and wish to make an acceleration election under Regulations section 54.4981A-1T b-12.		
4	Check here ▶ ☐ if you made an acceleration election in 1987 and wish to revoke that election.		

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Your signature ▶ Date

Paid Preparer's Use Only			
Preparer's signature ▶	Date	Check if self-employed ▶ ☐	Preparer's social security no.
Firm's name (or yours, if self-employed) and address ▶		E.I. No. ▶	
		ZIP code ▶	

1988

Department of the Treasury
Internal Revenue Service

Instructions for Form 5329

Return for Individual Retirement Arrangement and Qualified Retirement Plans Taxes

(Section references are to the Internal Revenue Code unless otherwise noted.)

Items You Should Note

- If you previously made nondeductible IRA contributions, you must use **Form 8606,** Nondeductible IRA Contributions, IRA Basis, and Nontaxable IRA Distributions, to compute the nontaxable portion of your IRA withdrawals.
- For 1988, there are new rules to determine the minimum required distribution from IRAs for individuals who became 70½ during 1987.
- Worksheets for the computation of the unrecovered grandfather amounts under the discretionary and attained age methods are new and should be retained in your permanent records. See instructions for Part IV.
- A recent legislative change that renumbered Code section 4981A as section 4980A has not been reflected on Form 5329 or these instructions.

General Instructions

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	1 hr., 12 min.
Learning about the law or the form	37 min.
Preparing the form	1 hr., 19 min.
Copying, assembling, and sending the form to IRS	20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to either **IRS** or the **Office of Management and Budget** at the addresses listed in the instructions for Form 1040.

Purpose of Form.—Use this form to report any excise tax or additional income tax you may owe in connection with your individual retirement account (IRA) or other qualified retirement plan.

Who Must File.—You must file a Form 5329 if you:

(1) owe a tax due to excess contributions to your IRA;

(2) owe a tax on early distributions from your IRA or qualified retirement plan;

(3) meet an exception to the tax on early distributions;

(4) owe a tax because you did not receive a minimum required distribution from your IRA;

(5) wish to make a grandfather election under Temporary regulations section 54.4981A-1T b; or

(6) owe a tax on excess distributions from a qualified retirement plan.

These items are explained in detail later in these instructions.

Each spouse must complete a separate Form 5329 for taxes attributable to his or her IRA or distribution from a qualified retirement plan. If both spouses owe penalty taxes, enter the combined total tax from Forms 5329 on Form 1040, line 52.

Do ***not*** file Form 5329 to report your deduction for contributions to your IRA. Report this deduction on your **Form 1040** or **Form 1040A,** U.S. Individual Income Tax Return. If you make a nondeductible contribution to your IRA, you must file **Form 8606,** Nondeductible IRA Contributions, IRA Basis, and Nontaxable IRA Distributions.

For additional information, see **Publication 575,** Pension and Annuity Income, and **Publication 590,** Individual Retirement Arrangements (IRAs).

Also, individuals who redeem their individual retirement bonds should see Publication 590.

When and Where To File.—Your 1988 Form 5329 should be attached to and filed at the same time (including extensions) with your 1988 Form 1040. If you are paying tax for prior years, use a separate Form 5329 for the year you are paying tax.

If you do not have to file Form 1040 because you do not have enough income to require filing an income tax return or you are filing for prior years, file only a completed Form 5329 with the Internal Revenue Service at the time and place you are required to file Form 1040. Include a check or money order payable to the Internal Revenue Service for any tax due shown on lines 7, 11c, 15, 19c, and 23c.

Amended Return.—Check this box if you are filing an amended Form 5329.

Sign and Date Form 5329.—This form must be signed if filed separately.

Preparer's Number.—The paid preparer's number is needed only if you owe a tax on early distributions. For further information about a paid preparer's signing responsibilities, see instructions for Form 1040.

Definitions

Compensation.—Compensation includes wages, salaries, professional fees, and other pay you receive for services you perform. It also includes sales commissions, commissions on insurance premiums, pay based on percent of profit, tips, and bonuses. It includes net earnings from self-employment, but only for a trade or business in which your personal services are a material income-producing factor. In addition, for IRAs all taxable alimony received by a former or current spouse under a decree of divorce or separate maintenance is treated as compensation.

The term "compensation" does not include any amounts received as a pension or annuity and does not include any amount received as deferred compensation.

Rollover Contribution.—A rollover contribution is a contribution of assets that comes from one qualified retirement plan to another. Generally, a qualified distribution that is rolled over is treated as a tax-free distribution, only if such distribution is contributed to another qualified retirement plan within 60 days following the distribution. See Publication 590 for more information and additional requirements regarding rollover contributions to an IRA, distributions made pursuant to a "qualified domestic relations order," and rollover of partial distributions from qualified plans.

Note: *If you instruct the trustee of your IRA to transfer funds directly to another IRA, the transfer is* ***not*** *considered a* *rollover. Do not include the amount transferred in income or deduct the amount transferred as a contribution to your IRA.*

Early Distribution.—Generally, any distribution from your IRA or other qualified retirement plan that you receive before you attain age 59½ is an early distribution.

See Specific Instructions, Part II, for the tax on early distributions and exceptions.

Prohibited Transactions.—Generally, transactions such as borrowing from your IRA or annuity or using your IRA as a basis for obtaining a benefit are prohibited transactions. They cause the IRA or annuity to no longer be considered an IRA or annuity as of the first day of your tax year in which the transaction occurs. Further, the entire value of your account or annuity is considered distributed to you as of the first day of your tax year. See Specific Instructions, Part II, line 9a.

Pledging of Account.—

(1) If, during the tax year, you use any part of your account as security for a loan, that part is treated as being distributed to you.

(2) If, during the tax year, you use all or any part of your individual retirement annuity contract as security for a loan, the total value of that contract is treated as being distributed to you as of the first day of your tax year.

Also, if you are under age 59½ when the account or annuity is treated as being distributed to you, these distributions are subject to the tax on early distributions. See Specific Instructions, Part II, line 9b.

Note: *Report any distributions received or considered to be received from your IRA as fully taxable on Form 1040, line 16b, except:*

(a) Rollover contributions to another plan or IRA.

(b) Current year contributions that you withdraw from your IRA before the due date of your income tax return for the year the excess contributions were made and for which you took no deduction.

(c) Any excess contributions from earlier years that you withdraw, if the total contributions for the year in which the excess contributions were made are not more than $2,250 (or if the total contributions for the year include employer contributions to a SEP, increased by the lesser of the amount of the employer contributions to the SEP or $30,000) and you took no deduction for the excess contributions.

(d) Amounts transferred (by transfer of ownership of an IRA) to a former spouse under a divorce decree or to a current spouse under a separate maintenance agreement.

(e) Any individual retirement annuity contracts distributed to you. However, report on your income tax return any payments you received from these annuities as fully taxable annuity payments.

Specific Instructions

Part I—Excess Contributions Tax for Individual Retirement Arrangements (Section 4973)

If you contributed, either this year or in earlier years, more to your IRA than is allowable as a deduction, you may have to pay an excess contributions tax. For this purpose, the amount allowable as a deduction under section 219 is computed without regard to the AGI limitation on the deduction under section 219(g).

However, if you withdrew some or all of your 1988 IRA contributions before the due date (including extensions) of your 1988 income tax return, the contributions will not be taxable as a distribution if:

(1) you do not claim a deduction for the amount of the contributions withdrawn, and

(2) the withdrawal from your IRA includes any income earned on the contributions.

Do not include such withdrawn contributions on line 1, Form 5329.

However, you must include the income earned on the excess contributions withdrawn before the due date of your income tax return on Form 1040 for the year in which the contribution was made. Also report the income on line 8, Part II of Form 5329, for the year the contribution was made if you have not reached age 59½ at the time you received the distribution of income.

Line 1.—Enter the excess contributions you made in 1988. To compute this amount, subtract your limitation amount, as determined in Worksheet 1 or 2 contained in the Form 1040 Instructions for line 25a or 25b, from your actual contributions.

Do not include on this line any rollover contributions or any contributions designated as nondeductible contributions on Form 8606.

Any distribution of current year contributions will not be subject to the 10 percent tax on early distributions (see Part II) if you withdraw it and any income earned on it before the due date of your income tax return.

All other withdrawals of excess contributions will not be subject to the 10 percent tax on early distributions if the total contribution for the year in which the excess contributions were made is not more than $2,250 (or if the total contributions for the year include employer contributions to a SEP, increased by the lesser of the amount of the employer contributions to the SEP or $30,000) and you did not take a deduction for the excess contributions.

Line 2.—Enter the total amount of 1987 excess contributions not withdrawn from your IRA before the due date of your 1987 income tax return, plus the 1986 and earlier excess contributions not withdrawn or otherwise eliminated before January 1, 1988.

Line 3.—If your limitation is more than the amount actually contributed to your IRA, and your excess contributions from earlier years have not been eliminated, complete the worksheet below to see if you have a contribution credit.

Line 4a.—If you have withdrawn any money from your IRA in 1988 that must be included in your income for 1988, enter the amount on line 4a. Do not include any contributions withdrawn that will be reported on line 4b.

Line 4b.—Enter any excess contributions to your IRA for 1976 through 1986 that you withdrew in 1988. Also enter any 1987 excess contributions that you withdrew after the due date (including any extensions) for your 1987 income tax return if:

(1) you did not claim a deduction, and

(2) the total contributions to your IRA for the tax year for which the excess contributions were made were

Worksheet for line 3

1	Enter amount from line 2, IRA Worksheet 1, or line 7, IRA Worksheet 2, in Form 1040 Instructions for line 25, but not more than $2,000 ($2,250 if you contributed to your nonworking spouse's account)	
2	Enter amount that is deductible under section 219 and is contributed either to your account or to your and your nonworking spouse's accounts. (Do not include contributions under section 219(f)(6) or any designated nondeductible contributions.).	
3	Contribution credit—subtract line 2 from line 1. Enter this amount on line 3 of Form 5329. Also include on line 3 or 8 (whichever is applicable) IRA Worksheet 1; or line 9 or 19 (whichever is applicable) IRA Worksheet 2, contained in Form 1040 Instructions for line 25, the smaller of either: (i) this amount; or (ii) your earlier years' excess contributions not previously eliminated. (See section 219(f)(6).)	

not more than $2,250 (or if the total contributions for the year include employer contributions to a SEP, increased by the lesser of the amount of the employer contributions to the SEP or $30,000).

Part II—Tax on Early Distributions (Section 72)

In general, if you receive any amount from an IRA or a qualified retirement plan before you reach age 59 ½ (including an involuntary cashout under section 411(a)(11) or 417(e)), the portion of such distributions that is includible in gross income is subject to a 10 percent tax.

A "qualified retirement plan" includes:

(1) a qualified pension, profit-sharing, and stock bonus plan;

(2) a qualified annuity plan;

(3) a qualified annuity contract;

(4) an individual retirement account; and

(5) an individual retirement annuity.

The section 72(t) tax does not apply to:

- A distribution of excess contributions from a qualified cash or deferred arrangement.
- A distribution of excess aggregate contributions to meet nondiscrimination requirements applicable to employer matching and employee contributions.
- A distribution of excess deferrals.
- Amounts distributed from unfunded deferred compensation plans of tax-exempt or State and local government employers.

See the instructions for line 10b for distributions which are excluded from the tax.

Line 8.—Enter the amount of distributions you received from a qualified pension plan, including your IRAs, before you reached age 59½. Also, be sure to include the taxable amount of such distributions on line 16b or 17b, Form 1040.

The following distributions are not to be included on line 8:

(1) 1988 excess contributions withdrawn during the year or 1987 excess contributions withdrawn in 1988 before the filing date (including extensions) of your 1987 income tax return;

(2) "Rollover contributions" to another retirement arrangement or plan;

(3) Amount from an arrangement for which you make an entry on line 9d;

(4) Amount distributed from an arrangement because it was pledged as security for a loan (use this amount for line 9b purposes);

(5) 1976 and 1977 excess contributions to IRAs withdrawn in 1988 if no deduction was allowed for the excess contributions; or

(6) 1978 through 1986 excess contributions withdrawn in 1988; and 1987 excess contributions withdrawn after the due date (including extensions) of your 1987 income tax return if no deduction was allowed for the excess contributions, and the total IRA contributions for the tax year for which the excess contributions were made were not more than $2,250 (or if the total contributions for the year include employer contributions to a SEP, increased by the lesser of the amount of the employer contributions to the SEP or $30,000).

(7) The portion of your IRA withdrawals that represents a return of nondeductible IRA contributions computed on Form 8606; and

(8) Certain corrective distributions from qualified plans containing elective contribution arrangements.

Line 9a.—If you engage in a prohibited transaction, such as borrowing from your individual retirement annuity or pledging any or all of your annuity contract as security for a loan, the account or annuity ceases to be an IRA as of the first day of the tax year. You are considered to have received a distribution of the entire value of your account or annuity as of the first day of the year in which any of these transactions take place. If you are under age 59½ on the first day of the year, report the entire distribution on line 9a. If you enter an amount on line 9a, do not fill in line 8 or 9b for this IRA.

Line 9b.—Enter any portion of your IRA pledged as security for a loan here and on Form 1040, line 16b.

Line 9c.—The cost of any "collectible" (defined below) in which you invested funds of your IRA in 1988 is deemed to be a distribution to you in 1988. The cost is includible in your 1988 income. Enter the total cost of the collectible on Form 1040, line 16b. If you are under age 59½ when the funds were invested, enter the cost of the collectible on line 9c.

For this tax, a collectible is:

(1) any work of art,

(2) any rug or antique,

(3) any metal or gem,

(4) any stamp or coin (see "Exception" below),

(5) any alcoholic beverage, or

(6) any other tangible personal property specified by regulations under section 408(m).

Exception: *An IRA is allowed to invest in one, one-half, one-quarter, or one-tenth ounce gold coins, or one ounce silver coins that were minted by the U.S. beginning October 1, 1986.*

Line 10b.—The 10 percent additional tax does not apply to certain distributions which are specifically excepted by the Code. Enter the amount which is excluded from the additional tax on line 10b. Also, be sure to answer Question 1 under "Other Information." In the space provided next to Question 1, enter the number of the applicable Code section from the chart below:

No.	Code section	Exception
01	72(t)(2)(A)(ii)	Distribution made after death of the employee
02	72(t)(2)(A)(iii)	Distribution made due to disability
03	72(t)(2)(A)(iv)	Distribution which is part of a scheduled series of substantially equal periodic payments for the life of the participant (or joint lives of the participant and the participant's beneficiary) or the life expectancy of the participant (or the joint life expectancies of the participant and the participant's beneficiary)
04	72(t)(2)(A)(v)	Distribution made to an employee who has separated from service after attaining age 55 (not applicable to IRAs)
05	72(t)(2)(B)	Distribution used to pay medical expenses to the extent such expenses are deductible under section 213 (not applicable to IRAs)
06	72(t)(2)(C)	Certain distributions from employee stock ownership plans (ESOPs) (not applicable to IRAs)
07	72(t)(2)(D)	Distributions made pursuant to a qualified domestic relations order (not applicable to IRAs)

You must complete and file Form 5329 even if you do not owe the additional tax because you meet one of the exceptions listed above.

Line 11b.—If you receive any amounts under an annuity contract before reaching age 59½, such amount may also be subject to an additional 10 percent tax on the portion which is includible in gross income.

The additional tax does not apply to certain distributions (e.g., distributions attributable to your becoming disabled; or distributions allocable to investment in the contract before August 14, 1982) or to any distribution subject to the additional tax on early withdrawals under section 72(t).

See section 72(q) and Publication 575 for details.

Also, enter the amount of any distributions excluded from the tax to the left of the entry space with the notation, "Amount excluded."

Part III—Tax on Excess Accumulations in Individual Retirement Accounts and Annuities (Section 4974)

Generally, if you attained age 70 1/2 during 1987, you must receive your first distribution from your IRA by April 1, 1988; and your 1988 distribution by December 31, 1988.

Note: *The transitional rule for satisfying the IRA minimum distribution requirements with respect to distributions made in 1987 is not available for distributions made after December 31, 1987.*

If you did not receive the minimum required distribution(s) you must pay an additional tax that is equal to 50% of the difference between the amount that was required to be distributed and the amount that was actually distributed.

Under section 401(a)(9) you may receive your entire interest in the IRA (which would not be subject to the additional tax), or periodic payments over a period not extending beyond your life expectancy or the joint life expectancies of you and your designated beneficiary.

The minimum required distribution is computed by dividing the account balance of the IRA on December 31 of the year preceding any distribution by the applicable life expectancy.

Under an alternative method described in Publication 590, if you have more than one IRA you may take the minimum distribution from any one or more of the individual IRAs.

For purposes of determining required distributions, you must compute the life expectancies using the expected return multiples in Tables V and VI of Regulations section 1.72-9.

For a more detailed discussion of minimum distribution rules, with examples, and the life expectancy tables, see Publication 590.

Note: *The IRS may waive this tax on excess accumulations. The waiver of the tax is conditional upon evidence you submit that any shortfall in the amount of withdrawals from your IRA was due to reasonable error, and that appropriate steps have been or are being taken to remedy the shortfall. If you believe you qualify for this waiver, file Form 5329, pay this excise tax, and attach your letter of explanation. If your waiver request is granted, we will send you a refund.*

Part IV—Tax on Excess Distributions From Qualified Retirement Plans (Section 4981A)

Note: *Recent legislation renumbered Code section 4981A as 4980A.*

Generally, if you receive distributions from a "qualified retirement plan" (including IRAs) in excess of $117,529 (for 1988), or the applicable threshold amount, you may have to pay an additional 15 percent tax.

A qualified retirement plan includes a qualified pension, profit-sharing or stock bonus plan, annuity plan described in section 403(a), section 403(b) tax-sheltered annuity contract or custodial account, or an IRA (including a SEP-IRA).

Special Grandfather Rule.—If your total accrued benefits in all qualified plans and IRAs on August 1, 1986, have a value of at least $562,500, you may elect to use a special grandfather rule which exempts from the excise tax the portion of distributions treated as a recovery of benefits accrued on or before August 1, 1986.

The deadline for making the election is the due date, with extensions, of your 1988 Form 1040.

The portion of any distribution made after August 1, 1986, that is treated as a recovery of the grandfather amount depends on which grandfather recovery method you elect.

The amount of the distribution that is treated as a recovery of a grandfather amount reduces the unrecovered grandfather amount for future years until the unrecovered grandfather amount is zero.

If you made a special grandfather election under Regulations section 54.4981A-1T, use either Worksheet 1 or 2 to compute your 1988 recovery amount; and your unrecovered grandfather amount for 1989.

If you change the grandfather recovery method that you elected in a previous year, your previous election is considered revoked, and you must file an amended Form 5329 for any prior year in which a different recovery method was used. Also, be sure to complete Item 2 under "Other Information."

Discretionary Method.—Complete Worksheet 1 if you elected the discretionary method. Under this method, 10 percent of the distributions you receive during the calendar year is treated as a recovery of the grandfather amount. You may also elect to accelerate the rate of recovery of the grandfather amount to 100 percent. To make this election, complete Item 3 under "Other Information."

If you wish to revoke an acceleration election that you made in 1987, complete Item 4 under "Other Information."

Attained Age Method.—Complete Worksheet 2 if you elected the attained age method. Under this method, the portion of distributions you receive during any year that is treated as a recovery of the grandfather amount is calculated by multiplying the distributions you received by a fraction. The numerator of the fraction is the difference between your attained age in completed months on August 1, 1986, and age 35 (420 months). The denominator of the fraction is the difference between your attained age in completed months on December 31 and age 35 (420 months).

Be sure to keep these worksheets as part of your permanent records to assist in the preparation of your 1989 recovery amount. In the case of your death, the executor or administrator of your estate will need to know the unrecovered amount to compute any tax that may be due under section 4981A(d) on Schedule S (Form 706).

To make the special grandfather election, you must answer Question 2 under "Other Information." Enter your initial grandfather amount in the space provided, and check the grandfather recovery method you are electing (discretionary or attained age). Be sure to keep a copy of your election as part of your permanent records.

See Regulations section 54.4981A-1T for additional information on when to make the special grandfather election, how to determine your initial grandfather amount, the two grandfather recovery methods, and recordkeeping requirements.

Lines 16 and 20.—All retirement distributions are divided into two categories: (1) regular retirement distributions; and (2) lump-sum distributions. To be treated as a lump-sum distribution, you must make certain elections under section 402 or 403, such as 5-year averaging, with respect to that distribution. See **Form 4972,** Tax on Lump-Sum Distributions.

The following distributions are not to be included on lines 16 or 20:

(1) distributions excluded from income because of rollover contributions;

(2) distributions which are a return of employee contributions or nondeductible IRA contributions;

(3) certain payments made to a spouse or former spouse under a qualified domestic relations order; and

(4) distributions made as a result of death.

See section 4981A(c)(2).

Lines 17a and 21a.—The threshold amount depends on whether you have made a grandfather election. If you do not elect to use the special grandfather rule, use the $150,000 threshold amount. If you make a special grandfather election, enter $117,529 for 1988. For lump-sum distributions, enter 5 times the applicable threshold amount.

Lines 17b and 21b.—Enter the amount from line 5 of Worksheet 1, or line 8 of Worksheet 2.

Lines 19b and 23b.—The 15 percent excise tax on excess distributions may be offset by the 10 percent tax on early distributions under section 72(t) (line 11a, Part II) to the extent that the 10 percent tax is applied to excess distributions. If you entered an amount on line 11a, subtract line 17c, or 21c, from line 10c. If the result is zero or less, you are not eligible for an offset. If the result is greater than zero, multiply the result by 10% (the rate of the section 72(t) tax), and enter that result on line 19b or 23b.

Worksheet 1 for computation of unrecovered grandfather amount under the **Discretionary Method**

1 Initial grandfather amount as of 8/1/86

2a Distributions received between 8/1/86 and 12/31/86

b Recovery of grandfather amount for 1987 (Enter amounts from lines 17b and 21b of Part IV, of your 1987 Form 5329.)

c Previous recovered grandfather amounts (Add lines 2a and b.)

3 Unrecovered grandfather amount available for 1988 (Subtract line 2c from line 1.)

4 Distributions received during 1988

5 1988 recovery of grandfather amount (Multiply line 4 by 10% (.10) or, if elected, 100% (1.00).) Enter here and on line 17b or 21b of Form 5329 (ratably if both)

6 Unrecovered grandfather amount for 1989 (Subtract line 5 from line 3.)

Worksheet 2 for computation of unrecovered grandfather amount under the **Attained Age Method**

Note: *You cannot use this method if you were born after August 1, 1951.*

1 Initial grandfather amount as of 8/1/86

2a Distributions received between 8/1/86 and 12/31/86.

b Recovery of grandfather amount for 1987 (Enter amounts from lines 17b and 21b of Part IV, of your 1987 Form 5329.)

c Previous recovered grandfather amounts (Add lines 2a and b.)

3 Unrecovered grandfather amount available for 1988 (Subtract line 2c from line 1.)

4 Distributions received during 1988

5a Attained age in completed months on 8/1/86

b Number of completed months at age 35 420

c Subtract line 5b from line 5a

6a Attained age in completed months on 12/31/88

b Number of completed months at age 35 420

c Subtract line 6b from line 6a

7 Divide line 5c by line 6c

8 1988 recovery of grandfather amount (Multiply line 4 by the percentage on line 7.) Enter here and on line 17b or 21b of Form 5329 (ratably if both)

9 Unrecovered grandfather amount for 1989 (Subtract line 8 from line 3.)

Form **5500EZ**

Department of the Treasury
Internal Revenue Service

Annual Return of One-Participant (Owners and Their Spouses) Pension Benefit Plan

OMB No. 1545-0956

1988

For the calendar year 1988 or fiscal plan year beginning ☐, 19 ☐, and ending ☐, 19 ☐

This Form Is Open to Public Inspection

Please type or machine print

5588 ▶ **For Paperwork Reduction Act Notice, see page 1 of the instructions.**

This return is: *(i)* ☐ the first return filed *(ii)* ☐ an amended return *(iii)* ☐ the final return *(iv)* ☐ filed for identification purposes

Use IRS label. Otherwise, please type or machine print.

1a Name of employer

Address (number and street)

City or town, state, and ZIP code

1b Employer identification number

1c Telephone number of employer

1d If plan year has changed since last return, check here . . . . . . ▶ ☐

2a *(i)* Name of plan ▶ --

(ii) ☐ Check if name of plan has changed since last return

2b Date plan first became effective Month Day Year

2c Enter three-digit plan number . . ▶ ☐ ☐ ☐

		Yes	No
3a Enter the date the most recent plan amendment was adopted	Month ☐ Year ☐		
b Enter the date of the most recent IRS determination letter	Month ☐ Year ☐		
c Is a determination letter request pending with IRS?			
4 Enter the number of other qualified pension benefit plans maintained by the employer . . . . ▶ ________			
5 Type of plan: *a* ☐ Defined benefit pension plan (attach Schedule B (Form 5500)) *b* ☐ Money purchase plan *c* ☐ Profit-sharing plan *d* ☐ Stock bonus or ESOP plan			
6 Were there any noncash contributions made to the plan during the plan year?			

		Number
7 Enter the number of participants in each category listed below:		
a Less than age 59½ at the end of the plan year	**7a**	
b Age 59½ or more at the end of the plan year, but less than age 70½ at the beginning of the plan year . . .	**b**	
c Age 70½ or more at the beginning of the plan year.	**c**	

8a A fully insured plan with no trust and which is funded entirely by allocated insurance contracts that fully guarantee the amount of benefit payments should check the box at the right and not complete 8b through 10d . . . . . . ☐

b Contributions received for this plan year	**8b**	
c Net plan income other than from contributions	**c**	
d Plan distributions	**d**	
e Plan expenses other than distributions	**e**	

Note: *Do not complete 9 through 12 if this plan completed items 8 through 12 as applicable on the 1986 or 1987 Form 5500EZ.*

9a Total plan assets at the end of the year	**9a**	
b Total plan liabilities at the end of the year	**b**	

10 During the plan year, if any of the following transactions took place between the plan and a party-in-interest (see instructions), check "Yes" and enter amount. Otherwise, check "No."		Yes	Amount	No
a Sale, exchange, or lease of property	**10a**			
b Loan or extension of credit	**b**			
c Acquisition or holding of employer securities	**c**			
d Payment by the plan for services	**d**			

	Yes	No
11a Does your business have any employees other than you and your spouse (and your partners and their spouses)? . . If "No," do NOT complete the rest of this question; go to question 12.		
b Total number of employees (including you and your spouse and your partners and their spouses) ▶ ________		
c Does this plan meet the percentage tests of Code section 410(b)(1)(A)? . . . . See the specific instructions for line 11c.		
12 Answer this question only if there was a benefit payment, loan, or distribution of an annuity contract made during the plan year and the plan is subject to the spousal consent requirements (see instructions).		
a Was there consent of the participant's spouse to any benefit payment or loan within the 90-day period prior to such payment or loan?		
b If "No," check the reason for no consent: *(i)* ☐ the participant was not married *(ii)* ☐ the benefit payment made was part of a qualified joint and survivor annuity *(iii)* ☐ other		
c Were any annuity contracts purchased by the plan and distributed to the participants?		

Under penalties of perjury and other penalties set forth in the instructions, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

Date ▶ ------------------- Signature of employer/plan sponsor ▶ --

For IRS Use Only

1	1	1	1	1	1		2	2	2	2	2	2	2		3		4	4	4	4		5		6		7		8			

1988 Department of the Treasury
Internal Revenue Service

Instructions for Form 5500EZ

Annual Return of One-Participant (Owners and Their Spouses) Pension Benefit Plan

(Section references are to the Internal Revenue Code.)

Purpose

You can use this form only if all the following conditions are met:

1. You are filing this form for plan years starting after December 31, 1987.

2. The plan you are filing for is a one-participant plan, that is, as of the first day of the plan year for which this form is filed the plan covers:

- **(a)** only you or you and your spouse, and the business (including a corporation) is wholly owned by you or you and your spouse, or
- **(b)** only partners in a business partnership or the partners and their spouses.

3. If your business has employees other than you and your spouse or, if the business is a partnership and it has employees other than the partners' spouses, your plan does not cover these employees, but the plan still meets the coverage requirements of section 410(b)(1) without being combined with any other plan to meet these requirements (see instructions for line 11c).

4. The plan does not cover a business that is:

- **(a)** a member of an affiliated service group,
- **(b)** a member of a controlled group of corporations, or
- **(c)** a member of a group of businesses under common control.

5. The plan does not cover a business that leases employees.

See the definitions under General Instruction "H" for an explanation of the technical terms above.

If you cannot use this form, you must file the applicable Form 5500-C or Form 5500-R.

Paperwork Reduction Act Notice.—We ask for this information to carry out the law as specified in the Internal Revenue Code. We need it to determine whether the plan is operating according to the law. You are required to give us this information.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	10 hrs., 2 min.
Learning about the law or the form	1 hr., 4 min.
Preparing the form	2 hrs., 13 min.
Copying, assembling, and sending the form to IRS	16 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to the **Internal Revenue Service**, Washington, DC 20224, Attention: IRS Reports Clearance Officer, TR:FP; or the **Office of Management and Budget,** Paperwork Reduction Project, Washington, DC 20503.

General Instructions

A. Who Must File.—In general, any employer, who has a one-participant pension benefit plan must file an annual information return. See *Plans with $25,000 or less in assets* below. Types of pension benefit plans include, among others, defined benefit plans, profit-sharing plans, money purchase plans, stock bonus plans, employee stock ownership plans, and 401(k) plans.

Plans with $25,000 or less in assets.—Employers who have one participant plans with $25,000 or less in assets valued as of the last day of the plan year for which this form is being filed, are not required to file Form 5500EZ. However, if you have filed a 1987 Form 5500EZ and meet this $25,000 exception for 1988, check box "(iv) filed for identification purposes" at the top of Form 5500EZ. After you check the box, complete only items 1a, 1b, and 2c, sign the return, and file it with the Internal Revenue Service Center, Andover, MA 00201. This will allow IRS to update your plan file as a plan meeting the $25,000 exception.

Note: The $25,000 exception does not apply to plans that had more than $25,000 in assets at the end of the preceding plan year and the plan is terminated in the current plan year.

B. What To File.—One-participant pension benefit plans that are required to file should complete and file Form 5500EZ for the plan's first year; and for every plan year thereafter and for the plan year for which a final return is due. See page 3 of these instructions for a filled-in example of Form 5500EZ.

C. When To File.—File the Form 5500EZ and any applicable schedules by the last day of the 7th month following the end of the plan year unless an extension has been granted.

Request for Extension of Time To File.—An extension of time up to 2½ months may be granted for filing a return if a timely application, **Form 5558**, Application for Extension of Time To File Certain Employee Plan Returns, is filed requesting such an extension.

Exception: *One-participant plans are automatically granted extensions of time to file Form 5500EZ until the due date of the Federal income tax return of the employer, if all the following conditions are met:*

(1) The plan year and the employer's tax year are the same.

(2) The employer has been granted an extension of time to file its Federal income tax return to a date later than the normal due date for filing the Form 5500EZ.

(3) A copy of the IRS extension of time to file the Federal income tax return is attached to the Form 5500EZ filed with IRS.

Short Plan Year.—For a short plan year, file a return and all applicable schedules by the last day of the 7th month following the end of the short plan year. Modify the heading of the form to show the beginning and ending dates of your short plan year.

Amended Return.—If you file an amended return, check the box at the top of the return, and be sure to put a circle around the item numbers that have been amended.

D. Where To File.—Please file the return with the Internal Revenue Service Center, Andover, MA 00201.

E. Signature and Date.—The plan administrator or employer must sign and date Form 5500EZ.

F. Penalties.—The Internal Revenue Code imposes a penalty of $25 a day (up to $15,000) for not filing returns in connection with pension, profit-sharing, etc., plans by the due date.

G. Schedule B (Form 5500).—Defined benefit plans attach **Schedule B (Form 5500),** Actuarial Information, to Form 5500EZ. See instructions to Schedule B (Form 5500).

H. Definitions.—(Organizations defined in (A) and (C) may not file Form 5500EZ.)

(A) Affiliated service group.—In general, two or more businesses may be an affiliated service group if: (1) one or more of the businesses (or the shareholders, officers or highly compensated employees of one or more of the businesses) has an ownership interest in any of the other businesses, and (2) any of the businesses provide services to any of the other businesses (or are associated for the purpose of providing services to third parties). If this applies to your business, read the rest of this definition for more details. Section 414(m)(2) defines an affiliated service group:

1. As a group consisting of a service organization (FSO) and:

(1) a service organization (A-ORG) that is a shareholder or partner in the FSO and that regularly performs services for the FSO or is regularly associated with the FSO in performing services for third persons, and/or

(2) any other organization (B-ORG) if:

(a) a significant portion of the business of that organization consists of performing services for the FSO or A-ORG of a type historically performed by employees in the service field of the FSO or A-ORG, and

(b) 10% or more of the interest of the B-ORG is held by persons who are officers, highly compensated employees, or owners of the FSO or A-ORG.

2. An affiliated service group also includes a group consisting of: (a) an organization whose principal business is performing management functions for another organization (or one organization and other related organizations) on a regular and continuing basis, and (b) the organization for which such functions are so performed. See section 414 (m)(5).

(B) Leased employee.—A leased employee under section 414(n) is an individual who is not your employee but someone you have contracted for through a leasing organization, and who has performed services for you on a substantially full-time basis for a period of at least one year, and such services are of a type historically performed, in your field of business, by employees. If more than 20% of the nonhighly compensated individuals performing substantial services for you are leased employees, then you must treat all leased employees as your employees for purposes of coverage under your pension benefit plan.

(C) Controlled group of corporations and a group of trades or businesses under common control.—These are corporations or unincorporated businesses in which there is common ownership by one or more individuals or persons. See sections 414(b) and 414(c).

(D) Party-in-interest.—Generally, a party-in-interest in the case of a sole proprietorship or partnership includes you, your partners, relatives of you and your partners, and other businesses in which you, your partners, or the partnership have an interest. In the case of a corporation, another corporation in which your corporation has an interest may be a party-in-interest. Section 4975 prohibits dealing between the plan and parties-in-interest (disqualified persons) in most instances. References to party-in-interest transactions refer to all such transactions, not only those that are prohibited. Specifically, the term party-in-interest means:

(A) any fiduciary (including, but not limited to, any administrator, officer, trustee, or custodian), counsel, or employee of such employee benefit plan;

(B) a person providing services to such plan;

(C) an employer any of whose employees are covered by such plan;

(D) an employee organization any of whose members are covered by such plan;

(E) an owner, direct or indirect, of 50% or more of: (i) the combined voting power of all classes of stock entitled to vote or the total value of shares of all classes of stock of a corporation, (ii) the capital interest or the profits interest of a partnership, or (iii) the beneficial interest of a trust or unincorporated enterprise, which is an employer or an employee organization described in paragraph (C) or (D);

(F) a relative of any individual, described in paragraph (A), (B), (C) or (E);

(G) a corporation, partnership, or trust or estate of which (or in which) 50% or more of: (i) the combined voting power of all classes of stock entitled to vote or the total value of shares of all classes of stock of such corporation, (ii) the capital interest or profits interest of such partnership, or (iii) the beneficial interest of such trust or estate is owned directly or indirectly, or held by persons described in paragraph (A), (B), (C), (D), or (E);

(H) an employee, officer, director (or an individual having power or responsibilities similar to those of officers or directors), or a 10% or more shareholder, directly or indirectly, of a person described in paragraph (B), (C), (D), (E), or (G), or of the employee benefit plan; or

(I) a 10% or more (directly or indirectly in capital or profits) partner or joint venturer of a person described in paragraph (B), (C), (D), (E), or (G).

Specific Instructions

(References are to line items on the form.)

Line 1a. Enter the name and address of the employer.

Line 1b. Enter the nine-digit employer identification number (EIN) assigned to the employer. For example, 00-1234567.

Do Not Enter Your Social Security Number.

Employers and plan administrators who do not have an EIN should apply for one by attaching a completed Form SS-4 to this form when it is filed. You may also apply for an EIN before you are required to file Form 5500EZ by filing a completed Form SS-4 with the IRS Service Center where you are going to file the Form 5500EZ. If you do not receive your EIN in time to enter it on the Form 5500EZ you file, enter "Applied For" on line 1b.

Line 2a. Enter the formal name of the plan or sufficient information to identify the plan.

Line 2b. Enter the date the plan first became effective.

Line 2c. Enter the three-digit number the employer assigned to the plan. Plans should be numbered consecutively starting with 001.

Once a plan number is used for a plan, it must be used as the plan number for all future filings of returns for the plan, and this number may not be used for any other plan even after the plan is terminated.

Line 3. If you have adopted a master or prototype plan, enter "N/A" on lines 3a and 3c and enter the date of the sponsor's most recent IRS opinion letter on line 3b.

Line 3a. Enter "N/A" if no amendments have been adopted.

Line 3b. Enter "N/A" if no determination letter has been received.

Line 5. Check one box in this item. Profit-sharing, employee stock ownership plan (ESOP), and stock bonus and money purchase plans are types of defined contribution plans. A *defined contribution plan* is a plan which provides for an individual account for each participant and for benefits based solely on the amount in such account. If a plan is not a defined contribution plan, it is a defined benefit plan.

Line 7. In general, distributions received by a participant from any qualified plan prior to attainment of age 59½, death, or disability will be subject to a 10% tax on the amount of the distributions. In addition, individuals generally must begin to receive distributions from qualified plans by April 1 of the calendar year following the calendar year in which they become age 70½ or (except in the case of a 5% owner) retire, whichever is **later.** See sections 72(m)(5), 72(t), and 401(a)(9) for the specific rules that apply for these situations.

Line 8b. Enter the amount of contributions received by the trust during the year or the contributions owed to the trust at the end of the year.

Line 8d. Enter the amount of the distributions made by the trust that are to be included in the participant's income this year. If distributions include securities or other property, include the current value at the date distributed in this amount.

Line 9b. Do not include the value of future distributions that are to be made to participants.

Line 10. See **H. Definitions** of these instructions for the meaning of "party-in-interest."

Line 11b. Count your spouse and your partners' spouses only if they work in the business.

Note: *You cannot use Form 5500EZ if your plan covers employees other than the owners of the business and their spouses, or if you have employees covered by another plan upon which this one-participant plan relies for qualification.*

Line 11c. For purposes of Form 5500EZ your plan meets the percentage test if your business's only employees (other than the owners and their spouses) are:

1. covered by a collective bargaining agreement,

2. nonresident aliens who receive no earned income from United States sources, or

3. not eligible because they do not meet the minimum age or years-of-service requirements of the plan.

Line 12. Generally, within the 90 days prior to the date of any benefit payment or the making of a loan to a participant, you must get the spouse's consent to the payment of the benefit or the loan. However, there are some circumstances where obtaining this spousal consent is not required. The following is a partial listing of circumstances where spousal consent is not required:

(1) The participant is not married and no ex-spouse is required to be treated as a current spouse under a qualified domestic relations order issued by a court.

(2) The participant's accrued benefit in the plan never had a present value of more than $3,500.

(3) The benefit is paid in the form of a qualified joint and survivor annuity (i.e., an annuity for the life of the participant, with a survivor annuity for the life of the spouse which is not less than 50% of (and is not greater than 100% of) the amount of the annuity which is payable during the joint lives of the participant and the spouse). See section 417(b).

(4) The payout is from a profit-sharing or stock bonus plan that pays the spouse the participant's full account balance upon the participant's death and an annuity payment is not elected by the participant and the plan is not a transferee plan with respect to a participant. A profit-sharing or stock bonus plan is a transferee plan (with respect to a participant) if it had received a transfer from a plan that was subject to the consent requirements with respect to the participant.

(5) The participant has no service under the plan after August 22, 1984.

1988 Form 5500EZ Examples

Example I. The pension plan started in 1988. Mr. John Jones wholly owns a business (J&J Repair Service). Mr. Jones' wife is also employed in his business. The business has a money purchase pension plan adopted in 1988 with an effective date (beginning date) of January 1, 1988.

Mr. Jones applied for and received a determination letter from IRS stating that Mr. Jones' plan was a plan that qualified under Code section 401(a). The determination letter was dated March 17, 1988. This is Mr. Jones' only pension plan. Mr. Jones was born July 4, 1935, and Mrs. Jones was born April 5, 1937.

Contributions to the pension plan for 1988 were $27,000. The income earned for 1988 was $1,500. The bank charged Mr. Jones' plan a $10 maintenance fee for 1988.

Mr. Jones would complete and file a Form 5500EZ for 1988 as shown in the following example of a filled-in Form 5500EZ.

Supplemental explanation:

The box "the first return filed" is checked.

Line 1b. Mr. Jones files a Form SS-4 with the Form 5500EZ and enters "applied for" in 1b.

Line 2c. Mr. Jones, doing business as (DBA) J & J Repair Service, has only this pension plan. Therefore, he will number the pension plan "001."

Line 3a. Since the plan was not amended, Mr. Jones writes in "N/A" for not applicable.

Line 4. Mr. Jones has only one pension plan, so line 4 is "0."

Line 8a. Since Mr. Jones' plan is not an annuity plan with an insurance company, this line is left unanswered.

Line 9a. The total assets at the end of the plan year are equal to the contributions to the plan for the year ($27,000) plus the earnings for the year ($1,500) less the expenses for the year ($10) for a total of $28,490.

Line 10a through d. Since neither Mr. nor Mrs. Jones had any of the listed transactions with the plan, these items are all checked "No."

Line 11a through c. Since Mr. Jones and his wife are the only employees of the business, 11a is "No" and 11b and c are not answered.

Line 12. There were no distributions from the plan for the year, so line 12 is not answered.

Be sure to sign the return.

1988 5500EZ Example I

This return is: *(i)* ☒ the first return filed (ii) ☐ an amended return (iii) ☐ the final return (iv) ☐ filed for identification purposes

Use IRS label. Otherwise, please type or machine print.	**1a** Name of employer John Jones DBA J & J Repair Service	**1b** Employer identification number Applied for
	Address (number and street) 1234 2nd Street	**1c** Telephone number of employer (518) 999-1234
	City or town, state, and ZIP code Anytown, VA 22334	**1d** If plan year has changed since last return, check here ▶ ☐

2a *(i)* Name of plan ▶ J & J Repair Service Pension Plan

(ii) ☐ Check if name of plan has changed since last return

SAMPLE

2b Date plan first became effective Month 01 Day 01 Year 88

2c Enter three-digit plan number ▶ 0 0 1

			Yes	No
3a	Enter the date the most recent plan amendment was adopted N/A	Month ☐ Year ☐		
b	Enter the date of the most recent IRS determination letter	Month 03 Year 88		
c	Is a determination letter request pending with IRS?			X
4	Enter the number of other qualified pension benefit plans maintained by the employer ▶	0		
5	Type of plan: *(a)* ☐ Defined benefit pension plan (attach Schedule B (Form 5500)) *(b)* ☒ Money purchase plan *(c)* ☐ Profit-sharing plan *(d)* ☐ Stock bonus or ESOP plan			
6	Were there any noncash contributions made to the plan during the plan year?			X

			Number
7	Enter the number of participants in each category listed below:		
a	Less than age 59½ at the end of the plan year	**7a**	2
b	Age 59½ or more at the end of the plan year, but less than age 70½ at the beginning of the plan year	**b**	0
c	Age 70½ or more at the beginning of the plan year	**c**	0
8a	A fully insured plan with no trust and which is funded entirely by allocated insurance contracts that fully guarantee the amount of benefit payments should check the box at the right and not complete 8b through 10d ▶ ☐		
b	Contributions received for this plan year	**8b**	27,000
c	Net plan income other than from contributions	**c**	1,500
d	Plan distributions	**d**	0
e	Plan expenses other than distributions	**e**	10

Note: *Do not complete 9 through 12 if this plan completed items 8 through 12 as applicable on the 1986 or 1987 Form 5500EZ.*

Page 3

Example I (continued)

9a	Total plan assets at the end of the year	9a	28,490
b	Total plan liabilities at the end of the year	b	

10 During the plan year, if any of the following transactions took place between the plan and a party-in-interest (see instructions), check "Yes" and enter amount. Otherwise, check "No."

			Yes	Amount	No
a	Sale, exchange, or lease of property	10a			X
b	Loan or extension of credit	b			X
c	Acquisition or holding of employer securities	c			X
d	Payment by the plan for services	d			X

		Yes	No
11a	Does your business have any employees other than you and your spouse (and your partners and their spouses)? If "No," do NOT complete the rest of this question; go to question 12.		X
b	Total number of employees (including you and your spouse and your partners and their spouses) ▶ ________		
c	Does this plan meet the percentage tests of Code section 410(b)(1)(A)? See the specific instructions for line 11c.		

12 Answer this question **only** if there was a benefit payment, loan, or distribution of an annuity contract made during the plan year and the plan is subject to the spousal consent requirements (see instructions).

a Was there consent of the participant's spouse to any benefit payment or loan within the 90-day period prior to such payment or loan?

b If "No," check the reason for no consent: *(i)* ☐ the participant was not married *(ii)* ☐ the benefit payment made was part of a qualified joint and survivor annuity *(iii)* ☐ other

c Were any annuity contracts purchased by the plan and distributed to the participants?

Example II. The pension plan started in 1986 and a Form 5500-EZ was filed for 1986. Therefore, only items 1 through 8 and the signature block of Form 5500EZ would be completed for 1988 as shown below.

Supplemental explanation:

Line 1b. Mr. Jones' Employer Identification Number that he received in 1986 is entered on this line.

Line 2b. The plan started January 1, 1986, and that date is entered here.

Lines 2c, 3a, 3c, and 4 through 8 are the same as Example I.

Line 3b. The IRS determination letter date would be a date in 1986 as shown.

1988 5500EZ Example II

This return is: *(i)* ☐ the first return filed *(ii)* ☐ an amended return (iii) ☐ the final return (iv) ☐ filed for identification purposes

Use IRS label. Otherwise, please type or machine print.

1a Name of employer: John Jones DBA J & J Repair Service

Address (number and street): 1234 2nd Street

City or town, state, and ZIP code: Anytown, VA 22334

1b Employer identification number: 00 1234567

1c Telephone number of employer: (518) 999-1234

1d If plan year has changed since last return, check here ▶ ☐

2a *(i)* Name of plan ▶ J & J Repair Service Pension Plan

(ii) ☐ Check if name of plan has changed since last return

SAMPLE

2b Date plan first became effective: Month 01 Day 01 Year 86

2c Enter three-digit plan number ▶ 0 0 1

					Yes	No
3a	Enter the date the most recent plan amendment was adopted N/A	Month		Year		
b	Enter the date of the most recent IRS determination letter	Month 03		Year 86		
c	Is a determination letter request pending with IRS?					X

4 Enter the number of other qualified pension benefit plans maintained by the employer ▶ 0

5 Type of plan: *(a)* ☐ Defined benefit pension plan (attach Schedule B (Form 5500)) (b) ☒ Money purchase plan *(c)* ☐ Profit-sharing plan *(d)* ☐ Stock bonus or ESOP plan

		Yes	No
6	Were there any noncash contributions made to the plan during the plan year?		X

7 Enter the number of participants in each category listed below:

			Number
a	Less than age 59½ at the end of the plan year	7a	2
b	Age 59½ or more at the end of the plan year, but less than age 70½ at the beginning of the plan year	b	0
c	Age 70½ or more at the beginning of the plan year	c	0

8a A fully insured plan with no trust and which is funded entirely by allocated insurance contracts that fully guarantee the amount of benefit payments should check the box at the right and not complete 8b through 10d ▶ ☐

b	Contributions received for this plan year	8b	27,000
c	Net plan income other than from contributions	c	1,500
d	Plan distributions	d	0
e	Plan expenses other than distributions	e	10

Note: *Do not complete 9 through 12 if this plan completed items 8 through 12 as applicable on the 1986 or 1987 Form 5500EZ.*

Form **5884**

Department of the Treasury
Internal Revenue Service

Jobs Credit

► **Attach to your tax return.**

OMB No. 1545-0219

1988

Attachment
Sequence No. **77**

Name(s) as shown on return

Identifying number

Part I Jobs Credit

1 Enter the number of employees and total qualified wages paid or incurred during the tax year (up to $6,000 for each employee) for services of employees who are certified as members of a targeted group. **See instructions for special rules on qualified summer youth employees.**

	Number of employees	Total qualified wages
First year employees	a	b
Qualified summer youth employees	c	d

2 Enter 40% of line 1b **2**

3 Enter 85% of line 1d (fiscal year filers see instructions if line 1d contains wages of employees that began work after 12-31-88) **3**

4 Current year jobs credit—Add lines 2 and 3. Enter here and include on Schedule C (Form 1040), line 28b; Form 1120, line 13(b), page 1; or the corresponding line on other returns. (Members of a group of trades or businesses under common control, see Specific Instructions.) **4**

5 Flow-through jobs credits from other entities . . . **5**

If you are a—	Then enter total of current year jobs credit(s) from—
a Shareholder . .	Schedule K-1 (Form 1120S), lines 11 or12 . .
b Partner . . .	Schedule K-1 (Form 1065), lines 12d, 12e, or 13
c Beneficiary . .	Schedule K-1 (Form 1041), line 11 . . . .
d Patron . . .	(see instructions for line 5d) . . . . .

6 Total jobs credit for current year—Add lines 4 and 5 (S corporations, partnerships, estates, trusts, and cooperatives, see instructions for line 6.) **6**

Note: *If you have a 1988 investment credit (Form 3468), credit for alcohol used as fuel (Form 6478), research credit (Form 6765), or low-income housing credit (Form 8586) in addition to your 1988 jobs credit, or if you have a carryback or carryforward of any of these credits, stop here and go to* ***Form 3800****, General Business Credit, to claim your 1988 jobs credit. If you have only a 1988 jobs credit, you may continue with lines 7 through 14 to claim your credit.*

Part II Tax Liability Limitation

7 **a** Individuals—From Form 1040, enter amount from line 40 . . . .
b Corporations—From Form 1120, Schedule J, enter tax from line 3 (or Form 1120-A, Part I, line 1)
c Other filers—Enter income tax before credits from return **7**

8 **a** Individuals—From Form 1040, enter credits from lines 41, 42, and 43, plus any orphan drug credit, mortgage interest credit, and nonconventional source fuel credit included on line 46 . .
b Corporations—From Form 1120, Schedule J, enter credits from lines 4(a) through 4(d) (Form 1120-A filers, enter zero) . . . .
c Other filers—See instructions for line 8c **8**

9 Income tax liability as adjusted (subtract line 8 from line 7) **9**

10 Tentative minimum tax—
a Individuals—From Form 6251, enter amount from line 17 . . . .
b Corporations—From Form 4626, enter amount from line 13 . . . .
c Estates and trusts—From Form 8656, enter amount from Part III, line 10 . . . . . . **10**

11 Net income tax—
a Individuals—Enter the sum of line 9, above, and line 19 of Form 6251 . . . .
b Corporations—Enter the sum of line 9, above, and line 16 of Form 4626 . . . . . .
c Other filers—See instructions for line 11c **11**

12 If line 9 is more than $25,000—Enter 25% of the excess (See instructions) **12**

13 Enter—Line 11 lesswhichever is greater, line 10 or line 12. (If the result is less than zero, enter zero.) **13**

14 Total allowed jobs credit—Enter the smaller of line 6 or line 13. This is your **General Business Credit** for 1988. Enter here and on Form 1040, line 44; Form 1120, Schedule J, line 4(e); Form 1120-A, Part I, line 2a; or the proper line of other returns **14**

General Instructions

(Section references are to the Internal Revenue Code.)

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	4 hrs., 4 min.
Learning about the law or the form	2 hrs., 20 min.
Preparing the form	7 hrs., 10 min.
Copying, assembling, and sending the form to IRS	1 hr., 20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to either IRS or the Office of Management and Budget at the addresses listed in the instructions of the tax return with which this form is filed.

Changes You Should Note

The Technical and Miscellaneous Revenue Act of 1988 made the following changes in the law:

- The targeted jobs credit is extended to qualified wages paid or accrued to employees who begin work for the employer before January 1, 1990.
- For economically disadvantaged youth employees who begin work for the employer after December 31, 1988, the youth must be at least age 18 but less than age 23 on the date they are hired.
- For summer youth employees who begin work for the employer after December 31, 1988, the credit is reduced from 85 percent to 40 percent of qualified wages.

General Business Credit.—The general business credit consists of the investment credit, jobs credit, credit for alcohol used as fuel, research credit, and low-income housing credit. If you have more than one of these credits for 1988 or a carryback or carryforward of any of these credits, you must attach the appropriate credit forms and summarize them on **Form 3800**, General Business Credit. If you have only a 1988 jobs credit, you do not have to file Form 3800 this year.

Purpose of Form.— Use Form 5884 if you had jobs credit employees and take an income tax credit for wages you paid or accrued for them during the tax year.

Mutual savings institutions, regulated investment companies, and real estate investment trusts can take a limited credit. See section 52(e) and the related regulations.

You can take or revoke the jobs credit any time within 3 years from the due date of your return. Take the credit either on your original return or on an amended return.

For more information, see **Publication 572,** General Business Credit.

How To Figure the Credit.—In general, figure your jobs credit based on the employee's wages subject to the Federal Unemployment Tax Act (FUTA). Jobs credit wages, however, are limited to $6,000 for each employee ($3,000 for each qualified summer youth employee). Special rules apply in the following cases:

(1) You can take a jobs credit for *agricultural employees* who meet the other tests if their services qualify under FUTA as agricultural labor during more than half of any pay period. Base your credit for each employee on the first $6,000 in wages subject to social security (FICA) tax you paid or accrued for that person during the year.

(2) You can take a credit for *railroad employees* who meet the other tests if their wages qualify under the Railroad Unemployment Insurance Act (RUIA). Base your credit for each employee on the first $500 a month you paid or accrued for that person during the year in wages subject to RUIA tax.

(3) Wages for *youths in a cooperative education program* are not subject to FUTA, but include their wages in the amount you use to figure your jobs credit. Base your jobs credit for each youth on the first $6,000 in wages you paid or accrued for that person during the year.

Your credit is based on a percentage of the wages for each employee in the following targeted groups:

- Referrals by a vocational rehabilitation program.
- Economically disadvantaged Vietnam-era veterans.
- Economically disadvantaged youths.
- Supplemental Security Income (SSI) recipients.
- General assistance recipients.
- Youths in a cooperative education program, who belong to an economically disadvantaged family.
- Economically disadvantaged ex-convicts.
- Eligible work incentive employees.
- Qualified summer youth employees, age 16 or 17, who work for you between May 1 and September 15.

In addition, to claim a jobs credit on an employee's wages:

(1) more than half the wages received from you must be for working in your trade or business;

(2) the employee must be certified, as explained below, as belonging to a targeted group;

(3) you may not claim a credit on wages that were repaid by a federally funded on-the-job training program, or for which you received work supplementation payments under the Social Security Act;

(4) the employee cannot be your relative or dependent (see section 51(i));

(5) the employee cannot be your rehired employee if he or she was not a targeted group member when employed earlier;

(6) the employee must have worked for you for at least 90 days (14 days for a summer youth employee) or completed at least 120 hours of services (20 hours for a summer youth employee); and

(7) the wages cannot be for services of replacement workers during a strike or walkout.

Certification is done by a local agency, generally an office of the State Employment Security Agency (Jobs Service). The agency gives the employer a form certifying that the employee is in a targeted group. The certification must be completed or the employer must request, in writing, a certification from the certifying agency by the date the employee begins work (or within 5 days if the employer has received a written preliminary determination that the employee is in a targeted group).

Certification of a Youth in a Cooperative Education Program.—The certification is completed by the school administering the cooperative program. The school gives the employer a completed **Form 6199,** Certification of Youth Participating in a Qualified Cooperative Education Program.

Specific Instructions

Part I

On lines 1 through 4 figure your credit for wages you paid or accrued. If you have credits only from sources that shared a jobs credit (S corporations, partnerships, estates, trusts, or cooperatives), skip lines 1 through 4.

Whether or not you complete lines 1 through 4, enter on line 5 any credits you received from sources that share the credit. Complete the rest of the form to figure the credit to enter on your income tax return.

Controlled groups: The group member proportionately contributing the most first-year wages figures the group credit in Part I and skips Part II. See sections 52(a) and 1563.

On separate Forms 5884, that member and every other member of the group skips lines 1 through 3 and enters its share of the group credit on line 4. Each member then completes lines 5 through 14 on its separate form. Each group member attaches to its Form 5884 a schedule showing how the group credit was divided among all the members. The members share the credit in the same proportion that they contributed qualifying wages.

Line 1a.—Enter the number of employees for whom you have first-year wages.

Line 1b.—Enter the first-year wages. They are limited to $6,000 of each employee's first-year wages. If you paid first-year wages to any of these employees last year, subtract those wages from the $6,000 limit.

For example, if a jobs credit employee began working in your business on September 1, 1987, and you are a calendar year taxpayer, you would have figured your 1987 jobs credit based on the first-year wages you paid between September 1 and December 31, 1987. You would have figured your 1988 credit on the rest of the first-year wages you paid between January 1 and August 31, 1988.

Line 1d.—For each qualified summer youth employee, wages are limited to those paid for any 90-day period between May 1 and September 15, up to $3,000. You cannot claim a credit for an employee who was your employee in any prior period. Also, the summer youth employee must have worked for you at least 14 days, or completed at least 20 hours of services.

Line 3.—Taxpayers with qualified summer youth employees.—Include 85% of the first $3,000 of wages paid to each qualified employee who began working for you before January 1, 1989. For qualified employees who begin working for you after December 31, 1988, the rate is reduced to 40%.

Line 4.—In general, you must subtract your current year jobs credit on line 4 from the deduction on your return for salaries and wages you paid or owe for 1988. This is true even if you cannot take the full credit this year and must carry part of it back or forward.

An exception is a credit based on salaries and wages you capitalize for depreciation. If you have such a credit, reduce the amount on which you figure depreciation by the part of the current year jobs credit on line 4 that applies to the jobs credit wages you capitalize.

Another exception involves the full absorption method of inventory costing. See the regulations under section 280C to reduce your basis in inventory for the jobs credit.

If either exception applies to you, attach a statement to your return to explain why the amount on line 4 differs from the amount you subtract from your salary and wage deduction. See Publication 572 for details.

Line 5d.—If you belong to a cooperative that has an excess jobs credit, the cooperative should have given you a statement showing your share of the excess. Include on line 5 your total excess jobs credit from all cooperatives to which you belong.

Line 6.—If you have credits from passive activities, see **Form 8582-CR,** Passive Activity Credit Limitations, or **Form 8810,** Corporate Passive Activity Loss and Credit Limitations, before completing the remainder of this form.

Estates and trusts: The jobs credit on line 6 is shared between the estate or trust itself and the beneficiaries in proportion to the income allocable to each. On the dotted line to the left of the amount on line 6, the estate or trust should enter its own part of the total jobs credit. Label it "1041 PORTION" and use *this amount* in Part II to figure the jobs credit to take on Form 1041.

S corporations and partnerships: Prorate the jobs credit on line 6 among the shareholders or partners. Attach Form 5884 to the return and on Schedule K-1 show the credit for each shareholder or partner.

Cooperatives: Most tax-exempt organizations cannot take the jobs credit; but a cooperative described in section 1381(a) takes the jobs credit to the extent it has tax liability. Any excess is shared among its patrons.

Carrybacks and carryforwards: If you cannot use part of the credit because of the tax liability limitations, you may carry it back 3 years, then forward 15 years. Use Form 3800.

Part II

Line 8c. Other filers.—Before you can claim the jobs credit (which will be your general business credit for 1988) against your income tax liability, you must reduce this tax liability by the credits listed below:

- Personal credits (child and dependent care credit, credit for the elderly or disabled, and credit for interest on certain home mortgages)
- Foreign tax credit
- Possessions corporation tax credit
- Orphan drug credit
- Nonconventional source fuel credit

Line 11c. Other filers.—Enter the sum of line 9 and your alternative minimum tax from whichever alternative minimum tax form you file.

Line 12. Limitation.—See section 38(c)(3) for special rules for married couples filing separate returns, for controlled corporate groups, and for estates and trusts.

Form **6251**

Department of the Treasury
Internal Revenue Service

Alternative Minimum Tax—Individuals

▶ See separate Instructions.

▶ Attach to Form 1040 or Form 1040NR. Estates and trusts, use Form 8656.

OMB No. 1545-0227

1988

Attachment Sequence No. 32

Name(s) as shown on Form 1040

Your social security number

1	Taxable income from Form 1040, line 37 (can be less than zero)			1	
2	Net operating loss deduction. (Do not enter as a negative amount.)			2	
3	Add lines 1 and 2			3	
4	**Adjustments:** (See line-by-line instructions before completing.)	▨		▨	
a	Standard deduction from Form 1040, line 34	4a		▨	
b	Personal exemption amount from Form 1040, line 36	4b		▨	
c	Medical and dental expense	4c		▨	
d	Miscellaneous itemized deductions from Schedule A, line 24	4d		▨	
e	Taxes from Schedule A, line 8	4e		▨	
f	Refund of taxes	4f	( )	▨	
g	Interest from Schedule A, line 12b	4g		▨	
h	Other interest adjustments	4h		▨	
i	Combine lines 4a through 4h			4i	
j	Depreciation of property placed in service after 1986	4j		▨	
k	Circulation and research and experimental expenditures paid or incurred after 1986	4k		▨	
l	Mining exploration and development costs paid or incurred after 1986	4l		▨	
m	Long-term contracts entered into after 2/28/86	4m		▨	
n	Pollution control facilities placed in service after 1986	4n		▨	
o	Installment sales of certain property	4o		▨	
p	Adjusted gain or loss	4p		▨	
q	Certain loss limitations	4q		▨	
r	Tax shelter farm loss	4r		▨	
s	Passive activity loss	4s		▨	
t	Beneficiaries of estates and trusts	4t		▨	
u	Combine lines 4j through 4t			4u	
5	**Tax preference items:** (See line-by-line instructions before completing.)	▨		▨	
a	Appreciated property charitable deduction	5a		▨	
b	Tax-exempt interest from private activity bonds issued after August 7, 1986	5b		▨	
c	Depletion	5c		▨	
d	Add lines 5a through 5c			5d	
e	Accelerated depreciation of real property placed in service before 1987	5e		▨	
f	Accelerated depreciation of leased personal property placed in service before 1987	5f		▨	
g	Amortization of certified pollution control facilities placed in service before 1987	5g		▨	
h	Incentive stock options. See instructions	5h	▨	▨	
i	Intangible drilling costs	5i		▨	
j	Reserves for losses on bad debts of financial institutions	5j		▨	
k	Add lines 5e through 5j			5k	
6	Combine lines 3, 4i, 4u, 5d, and 5k			6	
7	Alternative tax net operating loss deduction. (Do not enter more than 90% of line 6.) See instructions			7	
8	Alternative minimum taxable income (subtract line 7 from line 6). If married filing separate returns, see instructions			8	
9	Enter: $40,000 ($20,000 if married filing separately; $30,000 if single or head of household)			9	
10	Enter: $150,000 ($75,000 if married filing separately; $112,500 if single or head of household)			10	
11	Subtract line 10 from line 8. If -0- or less, enter -0- here and on line 12 and go to line 13. If this line is more than -0-, go to line 12			11	
12	Multiply line 11 by 25% (.25)			12	
13	Subtract line 12 from line 9. If -0- or less, enter -0-			13	
14	Subtract line 13 from line 8. If -0- or less, enter -0- here and on line 19. If this line is more than -0-, go to line 15			14	
15	Multiply line 14 by 21% (.21)			15	
16	Alternative minimum tax foreign tax credit. See instructions			16	
17	Tentative minimum tax (subtract line 16 from line 15)			17	
18	Regular tax before credits (Form 1040, line 38) minus foreign tax credit (Form 1040, line 43). See instructions			18	
19	Alternative minimum tax (subtract line 18 from line 17). Enter on Form 1040, line 49. If -0- or less, enter -0-			19	

For Paperwork Reduction Act Notice, see separate Instructions.

1988

Department of the Treasury
Internal Revenue Service

Instructions for Form 6251

Alternative Minimum Tax—Individuals

(Section references are to the Internal Revenue Code.)

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	2 hrs., 17 min.
Learning about the law or the form	16 min.
Preparing the form	1 hr., 11 min.
Copying, assembling, and sending the form to IRS	17 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to either **IRS** or the **Office of Management and Budget** at the addresses listed in the instructions of the tax return with which this form is filed.

Changes You Should Note

The Tax Reform Act of 1986 allows a new "minimum tax credit." Figure this credit on **Form 8801,** Credit For Prior Year Minimum Tax. If you paid alternative minimum tax for 1987, get Form 8801 to see if you can claim this credit in 1988.

The Technical and Miscellaneous Revenue Act of 1988 made several changes to the alternative minimum tax rules, some of them retroactive to 1987. If any of the rules affecting 1987 apply to you, you may have to file an amended return for 1987.

Tax law changes that apply to 1987 and 1988

a. Taxable income for purposes of the AMT is reduced by any alcohol fuel credit included in gross income under section 87. See the instructions for line 1.

b. Personal exemptions are an adjustment. See the instructions for line 4b.

c. Qualified housing interest must meet the definition of qualified residence interest under section 163(h)(3) and be paid on indebtedness used to acquire, construct, or substantially rehabilitate your principal residence or a qualified dwelling. See the instructions for line 4h.

d. If you have to file an amended return for 1987 because of the new investment interest expense rules, you may also have to refigure your 1987 Form 4952 for AMT purposes. See the instructions for line 4h.

e. The simplified procedures for allocation of costs under section 460(b)(4) are used for AMT purposes for determining the percentage of completion of small construction contracts that meet the definition under section 460(e)(1). See the instructions for line 4m.

f. Only items of tax preference that increased the amount of a regular net operating loss for the tax year are subtracted from the loss when recomputing the AMT net operating loss.

g. When recomputing the foreign tax credit, taxes that are paid or accrued in a tax year beginning after 12/31/86 are not taken into account to the extent such taxes are carried back and treated as paid or accrued in a tax year beginning before 1987.

h. If you elect to forego the foreign tax credit carryback period for regular tax purposes, the election will also apply for AMT purposes.

i. For regular tax purposes, taxpayers may elect to use the depreciation method allowed for AMT purposes.

Tax law changes effective in 1988:

a. Married taxpayers filing separate returns who have alternative minimum taxable income (line 8 of Form 6251) of more than $155,000, will have a special computation to make for line 8. See the worksheet in the instructions for line 8. This provision is effective for tax years ending after 11/10/88.

b. In general, stock received from an option exercised after 12/31/87 under an incentive stock option plan is subject to an adjustment in the year the option is exercised to the extent that the fair market value of the stock exceeds the amount paid for the stock. See the instructions for line 4p.

General Instructions

Who Must File.—Complete this form to see if the alternative minimum tax (AMT) applies to you. Attach it to your return only if:

- You are liable for the alternative minimum tax; or
- line 6 is more than line 9, and

(a) you have one or more adjustments on line 4(h) and lines 4(j) through 4(t); or

(b) you have tax preference items on line 5.

Also, certain credits are limited by the amount shown on line 15. If this applies to you, Form 6251 must be attached to your return. The forms used to figure these credits have information on the tentative minimum tax limit.

For more information, see **Pub. 909,** Alternative Minimum Tax for Individuals.

Recordkeeping.—For alternative minimum tax purposes, certain items of income, deductions, etc., receive different tax treatment than for regular tax purposes. Therefore, for the AMT you need to recompute items that you figured for the regular tax. In some cases, you may wish to make this recomputation by completing the applicable tax form a second time. If you do complete another form, do not attach it to your tax return.

For the regular tax, some deductions and credits may result in carrybacks or carryforwards to other tax years. Examples are investment interest expense, a net operating loss, a capital loss, and the foreign tax credit. Because you may have to refigure these items for the AMT, the carryback or carryforward amount may be different for the AMT than for the regular tax. Therefore, you should keep records of these different carryforward and carryback amounts for the AMT and the regular tax. An AMT carryforward amount will be important in completing your Form 6251 for the following year.

Partners, shareholders, etc.—If you are a member of a partnership or a shareholder in an S corporation, the partnership or corporation will give you information on any adjustments or tax preference items relating to it that you have to take into account for Form 6251.

Nonresident alien individuals.—If you disposed of U.S. real property interests at a gain, see the instructions for line 46 of Form 1040NR. You may have to enter a different figure on line 15 of Form 6251. This will happen if the amount figured in the worksheet in the instructions for line 46 (Form 1040NR) is more than the tentative amount you figured on line 15 of Form 6251.

Earned income credit.—If you have an earned income credit, you must reduce the credit by any alternative minimum tax.

Optional 10-year (or 3-year) write-off for certain adjustment and preference items (section 59(e)).—For the regular tax, you may elect to deduct certain adjustment and preference items ratably over a period of time, rather than to treat those items as adjustments or tax preference items on Form 6251. These items are as follows: circulation expenditures under section 173, research and experimental expenditures under section 174(a), intangible drilling and developmental expenditures under section 263(c), development expenditures under section 616(a), and mining exploration expenditures under section 617(a).

You may elect to deduct circulation expenditures on your tax return over 3 years. The remaining items you may elect to deduct over 10 years.

You make the election in the year you make the expenditure. You can revoke it only with the consent of IRS. If you made the election for one of the above items, do not make an adjustment for that item on Form 6251. See section 59(e) for more information.

Line-By-Line Instructions

Line 1—Taxable income.—Enter the amount from line 37 of Form 1040. (If line 37 is zero (0)), subtract line 36 from line 35 of Form 1040 and enter the result as a negative amount on line 1 of this form.

If taxable income includes an amount from the alcohol fuel credit under section 87, reduce your taxable income by the credit included in income.

Line 2—Net operating loss deduction.— Enter any net operating loss deduction from line 22 of Form 1040 or Form 1040NR. Enter it as a positive amount.

Line 4—Adjustments.—For lines 4a through 4t, enter each adjustment as a positive amount unless otherwise indicated.

Line 4(a)—Standard deduction.—If you took the standard deduction instead of itemizing your deductions, enter the amount from line 34 of Form 1040.

Line 4(b)—Personal exemption.—Enter the amount from line 36 of Form 1040.

Line 4(c)—Medical and dental expense.—If you have an entry on line 4 of Schedule A (Form 1040), figure this adjustment as follows:

Step 1.—Multiply your adjusted gross income (line 32 of Form 1040) by 2½% (.025).

Step 2.—Compare the amount in Step 1 to the amount on line 4 of Schedule A (Form 1040). Enter the smaller figure on line 4(c) of this form.

Line 4(d)—Miscellaneous itemized deductions.—The deduction for miscellaneous itemized deductions is not allowed for AMT purposes. Enter on line 4(d) the amount from line 24 of Schedule A (Form 1040).

Line 4(e)—Taxes.—Enter any state, local, or foreign real property and income taxes, and any state and local personal property taxes that you included on lines 5, 6, and 7 of Schedule A (Form 1040).

Line 4(f)—Refund of taxes.—Enter any refund you received of the taxes described for line 4(e) above. Enter only the refunds of those taxes that you deducted in 1987 that were not allowed for the AMT. Enter the adjustment as a negative amount.

Example. Assume that in 1987 you deducted $4,650 in state taxes on Schedule A and entered that amount as an adjustment when figuring your AMT for 1987. If you received a refund of those taxes in 1988, enter the refund as a negative amount on this line.

Line 4(g)—Personal interest.—Personal interest, such as interest paid on car loans and credit cards, is not allowed for the AMT. Enter on this line the amount from line 12b of Schedule A (Form 1040).

Line 4(h)—Other interest.—Include on this line home mortgage interest from line 9a, 9b, or 10 of Schedule A (Form 1040) that:

- is for a mortgage taken out after 6/30/82, **AND** is attributable to proceeds not used to buy, build, or substantially rehabilitate your main home; **OR**
- is for a mortgage taken out before 7/1/82 and, at the time the mortgage was taken out, the mortgage was not secured by property that was your main home or a qualified dwelling used by you or a member of your family. (A qualified dwelling is any house, apartment, condominium, or mobile home not used on a transient basis.)

Investment interest expense.—If you completed **Form 4952,** Investment Interest Expense Deduction, you may have an adjustment on this line. Refigure your investment interest expense using another Form 4952 and complete that form as follows:

Step 1.—Complete lines 1 and 2 of Form 4952. Follow the Form 4952 instructions for lines 1 and 2 but when completing line 1, subtract any qualified housing interest included in that amount. See section 56(e). Add to this amount any interest expense from specified private activity bonds issued after 8/7/86.

When completing line 2, recompute your gross investment income, any net gain attributable to the disposition of property held for investment, and any investment expenses taking into account all AMT adjustments and tax preference items that apply. Include any interest income and investment expenses from private activity bonds issued after 8/7/86.

Step 2.—Enter -0- on line 3 and complete lines 4 and 5.

Step 3.—Skip lines 6 through 12 and enter the amount from line 5 on line 13.

Step 4.—Complete lines 14 through 24. When entering your disallowed investment interest expense from 1987 on line 17, use your AMT disallowed investment interest expense from 1987.

To figure your adjustment, find the difference between line 24 of your AMT Form 4952 and line 24 of the Form 4952 completed for regular tax purposes. If your investment interest expense allowed for the AMT is more than that allowed for the regular tax, enter the adjustment on line 4(h) as a negative amount.

Note: *If you took the standard deduction instead of itemizing your deductions, and you had investment interest expense, do not enter an adjustment unless you reported investment interest expense on Schedule E. If you reported investment interest expense on Schedule E, follow the above instructions for completing Form 4952. Allocate the investment interest expense allowed on line 24 of the AMT Form 4952 in the same way you did for the regular tax. Your adjustment is the difference between the amount allowed on Schedule E for the regular tax and the amount allowed on Schedule E for the AMT.*

Line 4(j)—Depreciation of property placed in service after 1986, or after 7/31/86 if election was made (under the transitional provision of section 203(a)(1) of the Tax Reform Act of 1986).—

Caution: *Do not include on this line any depreciation adjustment from:* **(1)** *an activity for which you are not at risk ;* **(2)** *amounts received from a partnership or S corporation if the basis limitations under section 704(d) or 1366(d) apply;* **(3)** *a passive activity; or* **(4)** *a tax shelter farm activity. Instead, take these depreciation adjustments into account when figuring the adjustments on line 4q, 4r, or 4s, whichever applies.*

For the AMT, the depreciation deduction must be recomputed using the alternative depreciation system (ADS) described in section 168(g). For property other than real property and property on which the straight line method was used, use the 150 percent declining balance method (switching to straight line in the first tax year when that method gives a better result) over the property's class life. Use the same convention you used for regular tax purposes.

For residential rental and nonresidential real property, use the straight line method over 40 years using the same mid-month convention you used for regular tax purposes.

In applying the above rules:

(1) The "class life" to be used for AMT purposes has a different meaning than the recovery period used for regular tax purposes (although these periods could possibly be the same in some instances). The class lives you need to use for AMT purposes can be found in Rev. Proc. 87-56, 1987-2 C.B. 674 or in **Pub. 534,** Depreciation. Use 12 years for any personal property that does not have an assigned class life;

(2) See Rev. Proc. 87-57, 1987-2 C.B. 687 for optional tables (14 through 18) that can be used in computing depreciation for AMT purposes. (These optional tables have been reproduced in Pub. 534).

(3) Do not make an adjustment for property depreciated under the unit-of-production method, or any other method not expressed in a term of years. See section 168(f)(1), (2), (3), or (4).

To figure the adjustment, subtract the recomputed depreciation for AMT purposes from the depreciation deduction for regular tax purposes. If the depreciation figured for the AMT is more than the depreciation deducted for the regular tax, enter the adjustment as a negative amount.

If depreciation is capitalized to inventory under the uniform capitalization rules, refigure the inventory using the rules discussed above.

Line 4(k)—Circulation expenditures and research and experimental expenditures paid or incurred after 12/31/86.— Caution: *Skip this line if for the regular tax you elected to take the optional 3-year write-off period for circulation expenditures or the optional 10 year write-off period for research and experimental expenditures under section 59(e).*

Circulation expenditures incurred after 1986.—For regular tax purposes, section 173 allows circulation expenditures to be deducted in full in the tax year they were paid or incurred. However, for the AMT these expenditures must be amortized over 3 years beginning with the year the expenditures were paid or incurred. Refigure these circulation expenditures for the AMT. Subtract your recomputed AMT expense from the expense claimed for regular tax purposes and enter the result on line 4k. If the current year deduction for the AMT is more than that figured for the regular tax, enter the adjustment as a negative amount.

Research and experimental expenditures incurred after 1986.—Research and experimental expenditures deducted during the current year for the regular tax, under section 174(a), must be amortized over 10 years for the AMT. Refigure these expenditures for the AMT and enter the adjustment on line 4(k). Make the adjustment in the same manner as described above for circulation expenditures.

If you had a loss with respect to property for which a deduction for circulation or research and experimental expenditures was allowed for regular tax purposes, see section 56(b)(2)(B).

Line 4(l)—Mining exploration and development costs paid or incurred after 12/31/86.—Caution: *Skip this line if for the regular tax you elected to take the optional 10-year write-off under section 59(e).*

The deduction you claimed for regular tax purposes under sections 616(a) and 617(a) is not allowed for AMT purposes. Instead, you must capitalize such costs and amortize them ratably over a 10-year period beginning with the tax year in which you made them.

Subtract your recomputed AMT expense from the expense you claimed for regular tax purposes and enter the result on line 4(l). If your recomputed AMT expense is greater than the expense you claimed for regular tax purposes, enter the difference as a negative amount.

If you had a loss with respect to property for which a deduction for mining exploration and development costs were allowed for regular tax purposes, see section 56(b)(2)(B).

Line 4(m)—Long-term contracts entered into after 2/28/86.—For AMT purposes, you must use the percentage of completion method rules described in section 460(b) to determine the taxable income from any "long-term contract" (defined in section 460(f)) you entered into after 2/28/86. However, this rule does not apply to any "home construction contract" (as defined in section 460(e)(6)) you entered into after 6/20/88 with respect to which you meet the two-year estimated completion requirement of section 460(e)(1)(B)(i) and the $10,000,000 ceiling on average annual gross receipts requirement of section 460(e)(1)(B)(ii).

Note: *In the case of a contract described in section 460(e)(1), the percentage of the contract completed is to be determined using the simplified procedures for allocating costs outlined in section 460(b)(4) to determine the percentage of completion.*

Subtract the income you reported for regular tax purposes from the income you recomputed for AMT purposes and enter the result on line 4(m).

If the amount reportable for the AMT is less than that reported for the regular tax, enter the adjustment as a negative amount.

Line 4(n)—Pollution control facilities placed in service after 12/31/86.—The election under section 169 to amortize the basis of a certified pollution control facility over a 60-month period is not available for AMT purposes.

Instead, the deduction is determined under the alternative depreciation system (ADS) described in section 168(g), using the ADR class life for the facility under the straight line method.

Subtract your recomputed AMT expense from the expense you claimed under section 169 for regular tax purposes. If the deduction allowed for AMT is more than the deduction allowed for regular tax, enter the adjustment as a negative amount.

Line 4(o)—Installment sales of certain property.—With respect to any disposition of inventory (as defined in section 1221(1)) after 3/1/86, the installment method of accounting cannot be used in determining income for AMT purposes. (An exception applies to certain dispositions of timeshares or residential lots for which you elected to pay interest under section 453(l)(2)(B).) **Note:** *For dispositions in tax years beginning before 1987, the above rule was different.* As a result of the Revenue Act of 1987, the installment method may now be used for AMT purposes for **all nondealer dispositions** of property occurring in tax years beginning after 1986.

Note also: *Under another provision of the Revenue Act of 1987, the installment method of accounting was repealed (for regular tax purposes) for "dealer dispositions" occurring after 1987.*

Application of rules in computing adjustment:

(1) Dealer dispositions: For dealer dispositions occurring after 3/1/86 but before 1/1/88, you will have adjustments with respect to those dispositions if you used the installment method for regular tax purposes but were required for AMT purposes to report the entire gain in the year of disposition. In such cases, enter the income you reported for regular tax purposes for the current year with respect to those dispositions on line 4(o) as a negative amount.

For dealer dispositions occurring after 1987, generally no adjustments are necessary since the installment method of accounting generally cannot be used for either regular tax purposes or for AMT purposes.

(2) Nondealer dispositions: For nondealer dispositions occurring after 3/1/86 but before the first day of your tax year that began in 1987, you will have adjustments with respect to those dispositions if you used the installment method for regular tax purposes but were required for AMT purposes to report the entire gain in the year of disposition. In such cases, enter the income you reported for regular tax purposes for the current year with respect to those dispositions on line 4(o) as a negative amount. For nondealer dispositions occurring on or after the first day of your tax year that began in 1987, generally no adjustments are necessary since you are allowed to use the installment method of accounting for both regular tax purposes and AMT purposes.

Line 4(p)—Adjusted gain or loss.—Use this line to report:

(a) Any AMT adjustment resulting from the recomputation of a gain or loss from the sale or exchange of property during the year, or from the recomputation of a casualty gain or loss to business or income-producing property; and

(b) Any AMT adjustment from the exercise of incentive stock options after 12/31/87.

Recomputed Gain or Loss.—For item (a) above, this line can apply only if you reported gain or loss on Form 4797, Schedule D (Form 1040), or Form 4684 (Section B). Recompute your gain or loss for those forms. When figuring your adjusted basis, take into account any AMT adjustment you made this year or in previous years for items related to lines 4j, 4k, 4l, and 4n, of Form 6251. On line 4(p), enter the difference between the gain or loss reported for the regular tax, and that figured for the AMT.

If the gain recomputed for AMT purposes is less than the gain computed for regular tax purposes **OR** if the loss recomputed for AMT purposes is more than the loss computed for regular tax purposes **OR** if you recomputed a loss for AMT purposes and computed a gain for regular tax purposes, enter the difference as a negative amount.

Incentive Stock Options.—Recent legislation changed the manner of reporting the exercise of incentive stock options (ISOs) for AMT purposes. The rules of section 421 that give favorable tax treatment to incentive stock options, do not apply for AMT purposes to stock received from options exercised after 12/31/87. Instead, the rules of section 83 apply. Include as an adjustment on this line the difference between the amount reported as income for regular tax purposes, if any, from the exercise of these options, and that reportable as income under section 83.

Line 4(q)—Certain loss limitations.—
Caution: *If the loss is from a passive activity, use line 4s instead. If the loss is from a tax shelter farm activity (that is not passive), use line 4r.*

Refigure your gains and losses from activities for which you are not at risk and basis limitations applicable to partnerships and S corporations by taking into account your alternative minimum tax adjustments and tax preference items. See sections 59(h), 465, 704(d), and 1366(d).

Enter on line 4q the difference between the amount that would be reported for the activity on Schedule C, E, F, or Form 4835 for AMT purposes and the amount that was reported for the activity on Schedule C, E, F, or Form 4835 for regular tax purposes.

Make any adjustment reported on Schedule D, Form 4684, or Form 4797 for the activity on line 4p instead of this line. See the instructions for line 4p.

Line 4(r)—Tax shelter farm loss.—Complete line 4r only if you have a gain or loss from a tax shelter farm activity (as defined in section 58(a)(2)) that is **not** a passive activity. If the tax shelter farm activity **is** a passive activity, you must include the gain or loss within your computations for line 4s below.

Recompute all gains and losses you reported for regular tax purposes from tax shelter farm activities by taking into account your AMT adjustments and tax preference items.
Important: *To avoid duplication, any AMT adjustment or tax preference item taken into account on line 4r should not be included within the amounts to be entered on any other line of this form.*

Determine your tax shelter farm activity gain or loss for AMT purposes using the same rules you used for regular tax purposes with the following modification: No recomputed loss is allowed, except to the extent the taxpayer is insolvent (see section 58(c)(1)). Furthermore, a recomputed loss may not be used in the current tax year to offset gains from other tax shelter farm activities. Instead, any recomputed loss must be suspended and carried forward indefinitely until: **(1)** you have a gain in a subsequent tax year from that same tax shelter farm activity, **OR (2)** the activity is disposed of.

Note: *The amount of any tax shelter farm activity loss that is not deductible (and is therefore carried forward) for AMT purposes is likely to differ from the amount (if any) that is carried forward for regular tax purposes. Therefore, it is essential that you retain adequate records for both AMT purposes and regular tax purposes.*

Enter on line 4r the difference between the amount that would be reported for the activity on Schedule E, F, or Form 4835 for AMT purposes and the amount that was reported for the activity on Schedule E, F, or Form 4835 for regular tax purposes.

Make any adjustment reported on Schedule D, Form 4684, or Form 4797 for the activity on line 4p instead of this line. See the instructions for line 4p.

Line 4(s)—Passive activity loss.—Your passive activity gains and losses must be refigured for the AMT by taking into account all AMT adjustments, tax preference items, and AMT prior year unallowed losses that apply to that activity. You may wish to fill out a second Form 8582 to determine your passive activity loss allowed for AMT purposes. But do not file the second Form 8582. When refiguring your passive activity loss, no phase-in of the disallowance under section 469(m) is allowed. Skip lines 10 through 15 of Form 8582 if you are filling out a second Form 8582.

Example. Assume you are a partner in a partnership and you receive a Schedule K-1 (Form 1065) that shows the following:

- A passive activity loss of ($4,125);
- A depreciation adjustment of $500 on property placed in service after 12/31/86; and
- A tax preference item of $225 for accelerated depreciation on property placed in service before 1/1/87.

Because the depreciation adjustment (of $500) and the depreciation tax preference item (of $225) are deductions that are not allowed for the AMT, you must first reduce the passive activity loss of ($4,125) by those amounts. The result is a passive activity loss for the AMT of ($3,400). You would then enter this amount on Worksheet 2 of the AMT Form 8582 and refigure the allowable passive activity loss for AMT purposes.

Note: *The amount of any passive activity loss that is not deductible (and is therefore carried forward) for AMT purposes is likely to differ from the amount (if any) that is carried forward for regular tax purposes. Therefore, it is essential that you retain adequate records for both AMT purposes and regular tax purposes.*

Enter on line 4s the difference between the amount that would be reported for the activity on Schedule C, E, F, or Form 4835 for AMT purposes and the amount that was reported for the activity on Schedule C, E, F, or Form 4835 for regular tax purposes.

Make any adjustment reported on Schedule D, Form 4684, or Form 4797 for the activity on line 4p instead of this line. See the instructions for line 4p.

Caution: *To avoid duplication, any AMT adjustment or tax preference item taken into account on this line should not be included in amounts entered on any other line of this form.*

Publicly Traded Partnership (PTPs).—If you had losses from a PTP, you will have to refigure the loss using any AMT adjustments, tax preference items, and any AMT prior year unallowed loss. Any phase-in allowed on pre-enactment activities for regular tax purposes is not allowed for AMT purposes.

Tax shelter passive farm activities.— Refigure any loss from a tax shelter passive farm activity taking into account all AMT adjustments, tax preference items, and AMT prior year unallowed losses. If the amount is a gain, it can be included on the AMT Form 8582, but if it is a loss, the adjustment for the tax shelter passive farm activity is the loss you reported for regular tax purposes. The AMT loss to carry forward is the refigured AMT loss.

Insolvency.—If at the end of the tax year, your liabilities exceed the fair market value of your assets, increase your passive activity loss allowed by that excess (but not more than your total loss). See section 58(c)(1).

Line 4(t)—Beneficiaries of estates and trusts.—Enter on this line the amount from line 7 of your Schedule K-1 (Form 1041). This is your share of the distributable alternative minimum taxable income from the estate or trust.

Line 5.—Enter all adjustments on lines 5a through 5j as positive amounts. Also, for these lines, when you refigure an item for AMT, if the AMT amount is more than that figured for the regular tax, do not enter an amount on the line.

Line 5(a)—Appreciated property charitable deduction.—Enter the amount by which your contribution deduction would be reduced if all capital gain and section 1231 property were taken into account at its cost or other basis (rather than its fair market value).

Do not make an adjustment for carryforwards of charitable contributions made before 8/16/86. Also, do not include property for which you elected under section 170(b)(1)(C)(iii) to figure the contribution deduction using the property's adjusted basis rather than its fair market value.

Line 5(b)—Tax-exempt interest from private activity bonds.—Enter the interest you earned on "specified private activity bonds" reduced by any deduction that would have been allowable if the interest were includible in gross income for regular tax purposes. Generally, the term "specified private activity bonds" means any private activity bond (as defined in section 141) issued after 8/7/86. See section 57(a)(5) for exceptions and for more information.

Tax-exempt interest dividends paid by a regulated investment company are treated as interest on a private activity bond to the extent the company received interest on the bond.

Line 5(c)—Depletion.—In the case of mines, wells, and other natural deposits, enter the amount by which your depletion deduction under section 611 exceeds the adjusted basis of the property at the end of your tax year. In computing your year-end adjusted basis, use the rules of section 1016. However, do not reduce the adjusted basis by the current year's depletion.

Figure the excess amount separately for each property. If the depletion deduction for any property does not exceed the adjusted basis at year end, do not enter a tax preference amount for that property.

Line 5(e)—Accelerated depreciation of real property placed in service before 1987.—For AMT purposes, you must use the straight line method to figure depreciation on this property. Enter on line 5e the excess of the depreciation taken on this property for the regular tax over the depreciation as refigured for the AMT (using straight line). Figure this amount separately for each property and include only positive adjustments on line 5e. For 15-, 18-, or 19-year real property, or low-income housing, use the straight line method over 15-, 18-, or 19- years.

Line 5(f)—Accelerated depreciation of leased personal property placed in service before 1987.—For AMT purposes, you must use the straight line method to figure depreciation on this leased property. Enter on line 5f the excess of the depreciation taken for the regular tax over the depreciation as refigured for the AMT (using straight line). Figure this amount separately for each property and include adjustments on line 5f only if they are positive amounts.

For leased recovery property, other than 15-, 18-, or 19-year real property, or low-income housing, enter the amount by which your depreciation deduction figured for the regular tax exceeds the deduction allowable using the straight line method with a half-year convention, no salvage value, and the following recovery period:

3-year property	5 years
5-year property	8 years
10-year property	15 years
15-year public utility property	22 years

Line 5(g)—Amortization of certified pollution control facilities placed in service before 1987.—The election under section 169 to amortize the basis of a certified pollution control facility over a 60-month period is not available for AMT purposes. If the election was made for regular tax purposes, compute the adjustment by subtracting the depreciation deduction you would have been allowed under section 167 from the current year amortization deduction.

Line 5(h)—Incentive stock options.— Recent legislation changed the treatment of reporting the exercise of incentive stock options for AMT purposes. Any adjustment for incentive stock options should be made on line 4p instead of this line. See the instructions for line 4p.

Line 5(i)—Intangible drilling costs.—If for the regular tax you elected the optional 10-year write-off under section 59(e) for all property in this category, skip this line. No adjustment is necessary.

Intangible drilling costs (IDCs) from oil, gas, and geothermal wells are a tax preference item to the extent that the "excess IDCs" exceed 65% of the "net income" from the wells. The tax preference item is computed separately for oil and gas properties and geothermal properties.

Excess IDCs are computed as follows: Figure the amount of your IDCs allowed for regular tax purposes under section 263(c), but do not include any section 263(c) deduction for nonproductive wells. Then, subtract the amount that would have been allowed had you amortized that amount over a 120-month period starting with the month the well was placed in production. **Note:** *If you prefer not to use the 120-month period, you can elect to use any method that is permissible in determining cost depletion.*

Net income is determined by taking the gross income that you received or accrued during the tax year from all oil, gas, and geothermal wells and reducing it by the deductions allocable to these properties (reduced by the excess IDCs).

Note: *When refiguring net income, use only income and deductions allowed for AMT purposes.*

Line 7—Alternative tax net operating loss deduction—(ATNOLD).—Your ATNOLD is figured as follows:

For loss years beginning after 1986.— Reduce any NOL from a year after 1986 by any positive AMT adjustments in that year (see the types of adjustments listed on lines 4a through 4t). Increase the NOL by negative adjustments. Also, reduce the NOL by any tax preference items (but only to the extent they increased the NOL you determined for regular tax purposes).

For loss years beginning before 1987.— To refigure your ATNOLD for loss years beginning before 1987, see section 56(d)(2)(B).

Enter on line 7 the smaller of the ATNOLD or 90% of the amount shown on line 6 of Form 6251. If the 90% amount is smaller, the unused NOL can be carried back or forward in accordance with section 172(b). The treatment of NOLs for AMT purposes does not affect the amount of your NOL for regular tax purposes.

Note: *If you elected, under section 172(b)(3)(C), to forego the carryback period for regular tax purposes, the election will also apply for the AMT.*

Line 8—Adjustment for taxpayers who are married filing separate returns.—Complete the following computation only if line 8 is more than $155,000.

A. Enter amount from line 8 of Form 6251	
B. Exemption amount	$155,000
C. Subtract line B from line A	
D. Multiply line C by 25% (.25)	
E. Enter the smaller of line D or $20,000	
F. Add lines A and E. Enter the result here and replace the amount on line 8 of Form 6251 with this amount	

Line 16—Alternative minimum tax foreign tax credit.—Your alternative minimum tax foreign tax credit is your foreign tax credit refigured as follows:

(1) Use and attach a separate Form 1116 for each separate limitation specified at the top of Form 1116 to help you determine your AMT foreign tax credit. Print across the top of each Form 1116—"Alt Min Tax."

(2) Fill in Part I using the portion of your taxable income, adjustments, and tax preference items from Form 6251 attributable to sources outside the United States.

(3) Fill in Part III; however, do not enter on line 1 any taxes taken into account in a taxable year beginning after 12/31/86 which are treated under section 904(c) as paid or accrued in a tax year beginning before 1987. Enter on line 2 of Form 1116 your alternative minimum foreign tax credit carryover, and on line 9 of Form 1116 enter the portion of the alternative minimum taxable income from line 8 of Form 6251 allocable to this type of income. On line 11 of Form 1116, enter the portion of line 15 of Form 6251 attributable to this type of income.

(4) Complete Part IV for Form 1116. The foreign tax credit from Part IV, line 10, of Form 1116 used for AMT purposes is limited to the tax on line 15 of Form 6251 minus 10% of what the tax on line 15 would have been if line 7 of Form 6251 had been zero. If you had no entry on line 7 of Form 6251, the amount to enter on line 16 of Form 6251 is the smaller of 90% of line 15 of Form 6251 or the amount from Part IV, line 10, of Form 1116. If line 7 of Form 6251 has an amount, for purposes of this line, recompute what your tax on line 15 would have been if line 7 was zero. Multiply that amount by 10% and subtract that amount from the tax on line 15. Enter the smaller of that amount or the amount from Part IV, line 10, of Form 1116 on line 16 of Form 6251.

If your foreign tax credit is limited for AMT purposes, the amount you could not use can be carried back or forward in accordance with the rules under section 904(c). The treatment of foreign tax credits under the AMT rules does not affect the amount of your foreign tax credit for regular tax purposes.

Note: *If you elect to forego the foreign tax credit carryback for regular tax purposes, the election will also apply for the AMT.*

Line 18—Regular tax.—Enter your regular tax from line 38 of Form 1040 plus any tax from Form 4970 entered on line 39 of Form 1040. Subtract from that amount, any foreign tax credit entered on line 43 of Form 1040. Enter the result on line 18 of this form.

Form **6252**

Department of the Treasury
Internal Revenue Service

Installment Sale Income

▶ **See separate Instructions.** ▶ **Attach to your tax return.**
Use a separate form for each sale or other disposition of property on the installment method.

OMB No. 1545-0228
1988
Attachment Sequence No. **79**

Name(s) as shown on tax return

Identifying number

A Description of the property ▶ ____________

B Date acquired (month, day, and year) ▶ ____________ **C** Date sold (month, day, and year) ▶ ____________

D Was the property sold to a related party after May 14, 1980? (See Instructions.) ☐ Yes ☐ No

E If the answer to D is "Yes," was the property a marketable security? ☐ Yes ☐ No

If you checked "Yes" to question E, complete Part III.
If you checked "No" to question E, complete Part III for the year of sale and for 2 years after the year of sale.

Part I Figure the Gross Profit and Contract Price *(Complete this part for the year of sale only.)*

1 Selling price including mortgages and other debts. (Do not include stated or unstated interest.)		1
2 Mortgages and other debts the buyer assumed or took the property subject to, but not new mortgages the buyer got from a bank or other source	2	
3 Subtract line 2 from line 1	3	
4 Cost or other basis of property sold	4	
5 Depreciation allowed or allowable	5	
6 Subtract line 5 from line 4 (adjusted basis)	6	
7 Commissions and other expenses of sale	7	
8 Income recapture from Form 4797, Part III. (See Instructions.)	8	
9 Add lines 6, 7, and 8		9
10 Subtract line 9 from line 1. If zero or less, do not complete the rest of this form		10
11 If the property described in question A above was your main home, enter the total of lines 9 and 15 from Form 2119 here		11
12 Subtract line 11 from line 10 (gross profit)		12
13 Subtract line 9 from line 2. If zero or less, enter zero		13
14 Add line 3 and line 13 (contract price)		14

Part II Figure the Taxable Part of Installment Sale *(Complete this part for the year of sale and any year you receive a payment or have certain debts you must treat as a payment on installment obligations.)*

15 Divide line 12 by line 14 (gross profit percentage). (For years after the year of sale, see Instructions.)		15
16 **For year of sale only**—enter amount from line 13 above; otherwise, enter zero		16
17 Payments received during year. (See Instructions.) (Do not include stated or unstated interest.)		17
18 Add lines 16 and 17		18
19 Payments received in prior years. (See Instructions.) (Do not include stated or unstated interest.)	19	
20 Multiply line 18 by line 15 (taxable part of installment sale)		20
21 Part of line 20 that is ordinary income under recapture rules. (See Instructions.)		21
22 Subtract line 21 from line 20. Enter the result here and on Schedule D or Form 4797		22

Part III Figure the Taxable Part of Related Party Installment Sale
(Do not complete this part if you received the final installment payment this tax year.)

F Name, address, and taxpayer identifying number of related party ____________

G Did the related party, during this tax year, resell or dispose of the property? ☐ Yes ☐ No

H **If the answer to question G is "Yes," complete lines 23 through 30 below unless one of the following conditions is met (check only the box that applies).**

- ☐ The first disposition was a sale or exchange of stock to the issuing corporation.
- ☐ The second disposition was an involuntary conversion where the threat of conversion occurred after the first disposition.
- ☐ The second disposition occurred after the death of the original seller or buyer.
- ☐ It can be established to the satisfaction of the Internal Revenue Service that tax avoidance was not a principal purpose for either of the dispositions. If this box is checked, attach an explanation. (See Instructions.)

23 Selling price of property sold by related party	23
24 Enter contract price from line 14 for year of first sale	24
25 Enter the **smaller** of line 23 or line 24	25
26 Total payments received by the end of your 1988 tax year. Add lines 18 and 19	26
27 Subtract line 26 from line 25. If line 26 is more than line 25, enter zero	27
28 Multiply line 27 by the gross profit percentage on line 15 for year of first sale	28
29 Part of line 28 that is ordinary income under recapture rules. (See Instructions.)	29
30 Subtract line 29 from line 28. Enter the result here and on Schedule D or Form 4797	30

For Paperwork Reduction Act Notice, see separate Instructions.

Form **6252** (1988)

1988

Department of the Treasury
Internal Revenue Service

Instructions for Form 6252

Installment Sale Income

General Instructions

(Section references are to the Internal Revenue Code unless otherwise noted.)

Paperwork Reduction Act Notice

We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average times are:

Recordkeeping	1 hr., 25 min.
Learning about the law or the form	34 min.
Preparing the form	55 min.
Copying, assembling, and sending the form to IRS	20 min.

If you have comments concerning the accuracy of these estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to either **IRS** or the **Office of Management and Budget,** at the addresses listed in the instructions of the tax return with which this form is filed.

Changes To Note

The Omnibus Budget Reconciliation Act of 1987 (1987 Act) and the Technical and Miscellaneous Revenue Act of 1988 (1988 Act) made several changes to the installment sales rules. These changes include:

- Use of the installment method is disallowed for transactions where the rules of section 453A otherwise would be avoided through the use of related persons, pass-through entities, or intermediaries. The sale of an interest in a partnership or other pass-through entity will be treated as a sale of a proportionate share of the assets of the partnership or other entity. (Generally effective for dispositions in tax years that begin after December 31, 1986.)
- The proportionate-disallowance rule is repealed for sales after December 31, 1987. Therefore, line 18 of the 1987 Form 6252 has been eliminated. But, the rule may still apply to nondealer obligations where no election has been made under section 10202(e)(3)(A) of the 1987 Act. See Notice 88-81, 1988-30 I.R.B. 28, for guidance concerning this election.
- Interest must be paid on deferred tax from certain installment obligations totaling more than $5 million. The interest applies to nondealer dispositions of property having a selling price of more than $150,000. See **Interest on Deferred Tax,** discussed later. Also, if any of these obligations are pledged as security, the net loan proceeds are treated as a payment on that obligation. See **Pledge Rule,** also discussed later.
- The term "related persons" now also includes two or more partnerships in which the same persons own, directly or indirectly, more than 50 percent of the capital or profits interests. (This provision is generally effective for sales of depreciable property after October 22, 1986.)

Purpose of Form

Use Form 6252 to report income from casual sales of real or personal property other than inventory if you will receive any payments (including installment payments from sales before 1980) in a tax year after the year of sale.

You cannot use the installment method after December 31, 1986, for sales of stock or securities **traded on an established securities market.** See section 453(k).

Do not use Form 6252 if you elect not to report the sale on the installment method. If you want to elect out, see the Instructions for **Schedule D (Form 1040),** Capital Gains and Losses , or **Form 4797,** Sales of Business Property. If you do not use the installment method, report the sale on your Schedule D or Form 4797.

Note: *Generally, once you file Form 6252, you cannot later elect out of the installment method.*

Report the ordinary income from sections 1245, 1250, 179, and 291 in full in the year of sale even if no payments were received. Figure the ordinary income to be recaptured on Form 4797, Part III.

What Parts To Complete

For the Year of Sale—Complete questions A through E, Part I, and Part II.

For Years After the Year of Sale—Complete questions A through E, and Part II, for any year you receive a payment from an installment sale.

Related Party Sales—If you sold marketable securities to a related party, complete Form 6252 for each year of the installment agreement, even if you did not receive a payment. See **Installment Sales to Related Party**, below, for the definition of a related party. For a year after the year of sale, complete questions A through E, and Part III. (If you received a payment, also complete Part II.) If you sold property other than marketable securities to a related party, complete the form for the year of sale and for 2 years after the year of sale, even if you did not receive a payment. If during this 2-year period you did not receive an actual or deemed payment, complete questions A through E, and Part III. After this 2-year period, see "For Years After the Year of Sale," above.

Installment Sales to Related Party

A related party is your spouse, child, grandchild, parent, brother, sister, or a related corporation, S corporation, partnership, estate, or trust. Get **Pub. 537,** Installment Sales, for other related party rules that apply to sales after October 22, 1986.

If one of the exceptions in Part III applies, check the appropriate box. Do not complete lines 23 through 30. If you can establish that tax avoidance was not a principal purpose for either disposition, attach an explanation. See Pub. 537 for exceptions where tax avoidance is not a principal purpose.

Sale of Depreciable Property to Related Party

If you sell depreciable property to a related party as defined in section 1239(b), the installment sale rules do not apply, unless it is established to the satisfaction of the Internal Revenue Service that tax avoidance was not a principal purpose for the sale.

Get Pub. 537 and the regulations under section 453 for more information, including single sales of several assets, disposition of installment obligations, like-kind exchanges, and changes in selling price. Also see section 453(g) for new rules that apply to sales after October 22, 1986, if any of the payments are contingent as to amount and the fair market value cannot be readily determined.

Pledge Rule

If an installment obligation from a nondealer disposition of real property with a sales price over $150,000, and used in a trade or business or held for the production of rental income, is pledged as loan security after December 17, 1987, the net loan proceeds must be treated as a payment on the installment obligation.

The following limits apply: The amount treated as a payment cannot exceed the excess of the total contract price over any payments received under the contract before the secured debt was obtained. The debt must be directly secured by the installment obligation.

The pledge rule does not apply to pledges made after December 17, 1987, if the debt is incurred to refinance the principal amount of a debt that was outstanding on December 17, 1987, AND was secured by nondealer real property installment obligations on that date and at all times after that until the refinancing occurred. Also, the pledge rule does not affect refinancing due to the calling of a debt by the creditor as long as the debt is then refinanced by a person other than this creditor or someone related to the creditor. (Generally effective after December 17, 1987, in taxable years ending after that date. However, the rule is expanded to include all types of property except farm property, generally effective for pledges after December 31, 1988.)

Interest on Deferred Tax

Interest must be paid on the deferred tax from certain installment obligations. (The rules generally apply to dispositions of real property after December 31, 1987, and to dispositions of personal property after December 31, 1988.) The interest applies to any installment obligation arising from the disposition of any property under the installment method if:

- the property had a sales price over $150,000; AND
- the aggregate outstanding balance of these obligations arising during the tax year and outstanding at the close of the tax year is more than $5 million.

Exception: These rules do not apply to dispositions of farm property.

Interest must be paid in subsequent years if installment obligations, which originally required interest to be paid, are still outstanding at the close of a tax year.

How To Report the Interest.—The interest is not figured on Form 6252. See section 453A for how to figure it. You enter the interest as an additional tax on your tax return. Include it on the total tax line before credits. For individuals, this is line 39 of the 1988 Form 1040. For corporations, it is line 3 of Schedule J (1120). Write "Section 453A(c) interest" to the left of the amount.

How To Deduct the Interest.—This additional tax can be deducted as interest on your tax return. For individuals, it is treated as "personal interest" (line 12a, of the 1988 Schedule A (Form 1040)).

Specific Instructions

Do not include interest received, carrying charges received, or unstated interest on this form. Get Pub. 537 for information on unstated interest.

Partnerships and S corporations that pass through a section 179 expense to their partners or shareholders should not include this amount on lines 5 and 8.

For the Year of Sale.—If this is the year of sale and you sold section 1245, 1250, 1252, 1254, or 1255 property, you may have ordinary income. Complete Part III of Form 4797 to figure the ordinary income. See the Instructions for Part IV of the Form 4797 before starting Part I of Form 6252.

Line 1—Selling price.—Enter the total of any money, face amount of the installment obligation, and the fair market value of other property, such as the buyer's note, that you received or will receive in exchange for the property sold. Include on line 1 any existing mortgage or other debt the buyer assumed or took the property subject to.

If there is no stated maximum selling price, such as in a contingent sale, attach a schedule showing the computation of gain. Enter the taxable part on line 20 and also line 28 (if Part III applies). See the regulations under section 453.

Line 2—Mortgage and other debts.—Enter only mortgages (or other debts) the buyer assumed from the seller or took the property subject to. Do not include new mortgages the buyer gets from a bank, the seller, or other sources.

Line 4—Cost or other basis of property sold.—Enter the original cost and other expenses you incurred in buying the property. Add the cost of improvements, etc., and subtract any casualty losses previously allowed. For more information, get **Pub. 551,** Basis of Assets.

Line 5—Depreciation allowed or allowable.—Enter all depreciation or amortization you deducted or should have deducted from the date of purchase until the date of sale. Add any deduction you took under section 179 and the section 48(q)(1) downward basis adjustment, if any. Subtract 50% of any investment tax credit recaptured if the basis of the property was reduced under section 48(q)(1) and any section 179 or 280F recapture amount included in gross income in a prior tax year.

Line 7—Commissions and other expenses of sale.—Enter sales commissions, advertising expenses, attorney and legal fees, etc., in selling the property.

Line 8—Ordinary income recapture.—See the Instructions for Parts III and IV of Form 4797 to figure the recapture. Enter the part of the gain from the sale of depreciable property recaptured under sections 1245 and 1250 (including sections 179 and 291) here and on line 13 of Form 4797.

Line 15—Gross profit percentage.—Enter the gross profit percentage determined for the year of sale even if you did not file Form 6252 for that year.

Line 17—Payments received during the year.—Enter all money and the fair market value of any property you received in 1988. Include as payments any amount withheld to pay off a mortgage or other debt, such as broker and legal fees. Do not include the buyer's note, any mortgage, or other liability assumed by the buyer. If you did not receive any payments in 1988, enter zero.

If in prior years, an amount was entered on the equivalent of line 25 of the 1988 form, do not include it on this line. Enter it on line 19.

See **Pledge Rule** in these instructions for details about loan proceeds that must be treated as payments on installment obligations.

Line 19—Payments received in prior years.—Enter all money and the fair market value of property you received before 1988 from the sale. Include allocable installment income and any other deemed payments from prior years.

Lines 21 and 29.—Report on line(s) 21 and/or 29, any ordinary income recapture remaining from prior years on section 1245 and 1250 property sold before June 7, 1984. Also report on these lines any ordinary income recapture on section 1252, 1254, and 1255 property regardless of when it was sold. This includes ordinary income recapture in the year of sale or any remaining recapture from a prior year sale. See section 453(i). Do not enter ordinary income from a section 179 deduction. If this is the year of sale, see the Instructions for Part IV of Form 4797.

The amount on these lines should not exceed the amount shown on line(s) 20 and/or 28.

Lines 22 and 30—Trade or business property.—Enter this amount on Form 4797, line 4, if the property was held more than 1 year (more than 6 months if acquired before January 1, 1988). If the property was held 1 year or less (6 months or less if acquired before January 1, 1988) or, if you have an ordinary gain from a noncapital asset, even if the holding period is more than 1 year (more than 6 months if acquired before January 1, 1988), enter the amount on Form 4797, line 10, and write "From Form 6252."

Capital assets—Enter this amount on Schedule D as short-term or long-term gain. Use the lines identified as from Form 6252.

Line 23.—If in 1988 the related party sold part of the property from the original sale, enter the selling price of the part resold. If part was sold in an earlier year and part was sold this year, enter the cumulative selling price.

Form **6781**

Department of the Treasury
Internal Revenue Service

Gains and Losses From Section 1256 Contracts and Straddles

▶ **See instructions on back.**
▶ **Attach to your tax return**

OMB No. 1545-0644

1988

Attachment Sequence No. **82**

Name(s) as shown on tax return

Identifying number

A. ☐ Check here if you made the mixed straddle election under section 1256(d) this year or an earlier year.
B. ☐ Check here if you made the straddle-by-straddle identification election under section 1092(b).
C. ☐ Check here to make the mixed straddle account election under section 1092(b).
D. ☐ Check here if you elect to carryback a net section 1256 contracts loss.

Part I Section 1256 Contracts Marked to Market

	a. Identification of account	b. LOSS	c. GAIN
1			
2	Add column b and column c, line 1	( )	
3	Combine columns b and c of line 2 and enter the net gain or (loss)		
4	Form 1099-B adjustments (see instructions, attach schedule)		
5	Combine lines 3 and 4		
6	If you have a net section 1256 contracts loss and checked box D, enter the amount to be carried back		( )
7	Subtract line 6 from line 5		
8	Multiply line 7 by 40%. Enter as a short-term capital gain or (loss) on Schedule D. Identify as Form 6781, Part I		
9	Multiply line 7 by 60%. Enter as a long-term capital gain or (loss) on Schedule D. Identify as Form 6781, Part I		

Part II Gains and Losses From Straddles (Attach a separate schedule listing each straddle and its components.)

Section A.—Losses From Straddles

	a. Description of property	b. Date entered into or acquired	c. Date closed out or sold	d. Gross sales price	e. Cost or other basis plus expense of sale	f. LOSS If column e is more than d, enter difference. Otherwise, enter zero	g. Unrecognized gain on offsetting positions	h. Recognized loss. If column f is more than g, enter difference. Otherwise, enter zero
10								

11a	Enter short-term portion of line 10, column h, here and on Schedule D. Identify as Form 6781, Part II	( )
b	Enter long-term portion of line 10, column h, here and on Schedule D. Identify as Form 6781, Part II	( )

Section B.—Gains From Straddles

	a. Description of property	b. Date entered into or acquired	c. Date closed out or sold	d. Gross sales price	e. Cost or other basis plus expense of sale	f. GAIN If column d is more than e, enter difference. Otherwise, enter zero
12						

13a	Enter short-term portion of line 12, column f, here and on Schedule D. Identify as Form 6781, Part II	
b	Enter long-term portion of line 12, column f, here and on Schedule D. Identify as Form 6781, Part II.	

Part III Unrecognized Gains From Positions Held on Last Day of Tax Year (Memo Entry Only—See Instructions)

	a. Description of property	b. Date acquired	c. Fair market value on last business day of tax year	d. Cost or other basis as adjusted	e. UNRECOGNIZED GAIN If column c is more than d, enter difference. Otherwise, enter zero.
14					

Instructions

(Section references are to the Internal Revenue Code unless otherwise noted.)

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	9 hrs., 49 min.
Learning about the law or the form	1 hr., 58 min.
Preparing the form	3 hrs., 8 min.
Copying, assembling, and sending the form to IRS	16 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more

For Paperwork Reduction Act Notice, see back of form.

simple, we would be happy to hear from you. You can write to either IRS or the Office of Management and Budget at the addresses listed in the instructions of the tax return with which this form is filed.

Purpose of Form.—Form 6781 is to be used by all taxpayers that held section 1256 contracts or straddles. For more information, see **Publication 550**, Investment Income and Expenses.

Gain or loss to traders of section 1256 contracts is treated as capital gain or loss. However, such transactions are subject to self-employment tax.

Do not use Form 6781 to report hedging transactions. Report them directly on your tax return. Any gain or loss on a hedging transaction is treated as ordinary income or loss. For information about hedging transactions and the limitation on their losses, see Publication 550.

Mixed straddle election.—You may elect not to have the marked to market rules apply to section 1256 contracts that are part of a mixed straddle. A mixed straddle is any straddle at least one (but not all) of the positions of which is a section 1256 contract. Each position forming part of the straddle must be clearly identified on the day the first section 1256 contract forming part of the straddle is acquired as being part of such straddle. If you made this election, it will apply for all later years as well. It cannot be revoked without the consent of the Commissioner. If you made this election, check box A and report the section 1256 component in Part II instead of Part I.

Straddle-by-straddle identification election.—Make this election according to Regulations section 1.1092(b)-3T(d) by clearly identifying each position before the earlier of the close of the day the identified mixed straddle is established, or at or before the time the position is disposed of. No straddle-by-straddle identification election may be made for any straddle in which a mixed straddle election was made or if one or more positions are includible in a mixed straddle account. See Regulations section 1.1092(b)-3T for more information, and treatment of gains and losses from positions included in a mixed straddle for which a straddle-by-straddle identification election is made.

Mixed straddle account election.—Make this election according to Regulations section 1.1092(b)-4T(f) to establish one or more mixed straddle accounts for 1989, by the due date (without extensions) of your 1988 tax return. To make this election, check box C and attach the statement required by that regulation to your return. See Regulations section 1.1092(b)-4T for more information, including definition of mixed straddle account, and treatment of gains and losses from positions in a mixed straddle account. Also, see Regulations section 1.1092(b)-4T(c)(4) for the limitation on the total annual account net gain or loss.

In both the straddle-by-straddle identification election and mixed straddle account election, if the net gain or loss is attributable to a net-non-section 1256 position, then the net gain or loss is treated as a short-term capital gain or loss. Enter it directly on your Schedule D and identify the election. If the net gain or loss is attributable to a section 1256 position, enter the gain or loss in Part I of Form 6781 and identify the election.

If you did not make these elections, and you have a loss on the section 1256 component, use Part II to reduce the loss by any unrecognized gain on the non-section 1256 component before making an entry in Part I. You must also reduce the loss from any section 1256 component of a straddle which would be a mixed straddle if the positions had been properly identified as such.

Net section 1256 contracts loss election.—An individual or partnership having a net section 1256 contracts loss for 1988 may elect to carry it back three years. The amount which may be carried back cannot be more than the net section 1256 contracts gain in the year to which the loss is carried. The loss is carried to the earliest year first. See section 1212(c) for definition of net section 1256 contracts loss and net section 1256 contracts gain. Make the election by checking box D and entering the amount to be carried back in line 6. To carry your loss back, file an amended Form 6781 for the applicable year, together with a Form 1040X or amended return.

Part I

A section 1256 contract is: (1) any regulated futures contract, (2) any foreign currency contract, (3) any nonequity option, and (4) any dealer equity option.

A regulated futures contract is a contract for which the amount required to be deposited or withdrawn depends on a system of marking to market, and is traded on or subject to the rules of a qualified board or exchange.

For definitions of qualified board or exchange, foreign currency contract, nonequity option, and dealer equity option, see Publication 550.

Include in Part I all section 1256 contracts open at the end of your tax year or closed out during the year. If you receive a Form 1099-B or equivalent statement, enter the amount from box 9 of each form in column b or c of Form 6781, Part I. In column a of Form 6781, Part I, write "Form 1099-B" and identify the account by writing the broker's name.

On Form 6781, Part I, list each transaction separately for which you do not receive a Form 1099-B or equivalent statement, or if the Form 1099-B is not for your tax year. Describe each transaction in column a.

Line 4.— If the Form 1099-B you receive includes a straddle or hedging transaction, it may be necessary to make certain adjustments listed in (a) through (c) below. Attach a schedule listing each adjustment and enter the total on line 4.

(a) Enter the regulated futures part of a mixed straddle if you made any of the mixed straddle elections.

(b) If you did not make any of the mixed straddle elections or the straddle wasn't identified as a mixed straddle and you had a loss on the regulated futures part which was less than the unrecognized gain on the non-regulated futures part, enter the amount of the loss. If the unrecognized gain is less than the loss, enter the unrecognized gain. Use Part I for a loss on the disposition of one or more positions that are part of a mixed straddle and that are non-section 1256 positions if the disposition of no non-section 1256 position in the straddle would be a long-term capital gain or loss, and the disposition of one or more section 1256 positions in the straddle would be a capital gain or loss.

(c) Enter the regulated futures part of a hedging transaction.

Part II

Attach a separate schedule listing each straddle and its component positions.

Use section A for losses from positions that are part of a straddle. A loss is allowed only to the extent it exceeds the unrecognized gain on offsetting positions. The part of the loss not allowed is treated as if incurred in the following year.

Use section B for gains from positions that are part of a straddle.

Do not include in Part II dispositions of one or more positions that are part of a hedging transaction, a disposition of a loss position included in an identified straddle or a mixed straddle account, and disposition of a position that is part of a straddle if all the positions of the straddle are section 1256 contracts.

Straddle.—A straddle means offsetting positions with respect to personal property.

Offsetting positions.—If there is a substantial decrease in risk of loss to a taxpayer holding a position because that taxpayer or a related party also holds one or more other positions, then those positions are offsetting. If any position is not part of an identified straddle, such position cannot be treated as offsetting any position that is part of an identified straddle.

For further information concerning exceptions, definitions, related parties, flow through entities, and specific rules as to the tax treatment of gains and losses from straddles, see Publication 550.

Column a.—Enter the personal property, delivery date, and indicate whether the property is a long or short position .

Columns d and e.—For positions sold or closed out, enter the sales price or closing price in column d, and the cost or other basis plus commissions paid in column e. Include in column e interest and carrying charges properly allocable to personal property that is part of a straddle. You cannot deduct these expenses. See Publication 550 for more information about interest and carrying charges.

Section A, column f.—Include in this column any loss not allowed in the prior year to the extent of the unrecognized gain.

Section A, column g.—Enter the unrecognized gain on positions offsetting those in columns a through f. Figure this column by subtracting the cost or other basis of the offsetting position from the settlement price of that position as of the close of the last business day of your 1988 tax year. Do not enter less than zero.

Lines 11 and 13.—Separate recognized gains and losses into short-term and long-term. Attach a separate schedule. For information about the holding period for straddle positions, see Publication 550 and Regulations section 1.1092(b)-2T.

Part III

Section 1092 contains a reporting requirement. You must complete Part III by listing each position (whether or not part of a straddle) that you held at the end of the tax year (including any position you are treated as holding because it is held by a related party) if the settlement price of the position at such time exceeds your cost or other basis as adjusted.

Do not include the following in Part III:

- Positions that are part of an identified straddle;
- Property that is stock in trade or inventory;
- Positions that are part of a hedging transaction;
- Property used in a trade or business subject to depreciation.

If you do not have a loss on any position (including a regulated futures contract) for the entire tax year, or your only loss was on a position listed above, do not complete this part.

Form **8082**
(Rev. December 1987)
Department of the Treasury
Internal Revenue Service

Notice of Inconsistent Treatment or Amended Return
(Administrative Adjustment Request (AAR))

(For use by partners, S corporation shareholders, REMIC residual holders, and TMPs)
(See separate instructions.)

OMB No. 1545-0790
Expires 9-30-90
Attachment
Sequence No. **84**

Your name(s) as shown on your return	Your identifying number as shown on your return

Part I **General Information**

1 Notice of (check boxes that apply):
  a ☐ Inconsistent treatment of (check only one): **(1)** ☐ Partnership item(s) **(2)** ☐ S corporation item(s) **(3)** ☐ REMIC item(s)
  b ☐ Amended return (administrative adjustment request (AAR)) of (check only one):
    (1) ☐ Partnership item(s) **(2)** ☐ S corporation item(s) **(3)** ☐ REMIC item(s)

2 Name, address, and ZIP code of partnership, S corporation, or REMIC	**3a** Taxpayer identifying number of partnership, S corporation, or REMIC	
	b Tax shelter registration number (if applicable) of partnership or S corporation	
4 Internal Revenue Service Center where partnership, S corporation or REMIC filed its return	**5a** Partnership, S corporation or REMIC's tax year / / to / /	**b** Your tax year / / to / /

Part II **Inconsistent or Amended (Administrative Adjustment Request (AAR)) Items**

	(a) Description of inconsistent or amended (administrative adjustment request (AAR)) item(s) (see instructions)	**(b)** Inconsistency is in, or amendment (AAR) is to, (check boxes that apply)		**(c)** Amount as shown on Schedule K-1, Schedule Q, or similar statement, or your return, whichever applies (see instructions)	**(d)** Amount you are reporting	**(e)** Difference between (c) and (d)
		Amount of item	Treatment of item			
6						
7						
8						
9						

Part III **Explanation(s)**

6 ....

7 ....

8 ....

9 ....

For Paperwork Reduction Act Notice, see separate instructions.

Department of the Treasury
Internal Revenue Service

Instructions for Form 8082

(Revised December 1987)

Notice of Inconsistent Treatment or Amended Return (Administrative Adjustment Request (AAR))

(Section references are to the Internal Revenue Code unless otherwise noted.)

General Instructions

Paperwork Reduction Act Notice

We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Form

Note: *The words "pass through entity" are used in these instructions to mean partnership, S corporation, or REMIC (real estate mortgage investment conduit). The word "item" is used in these instructions to mean partnership, S corporation, or REMIC item.*

If you are a partner, S corporation shareholder, or residual holder of an interest in a REMIC, you generally must report items consistent with the way they were reported to you by the partnership (S corporation) on Schedule K-1 or by the REMIC on Schedule Q. However, there may be reasons why you wish to report these items differently.

Use Form 8082 to notify the IRS of any such inconsistency between your tax treatment of an item, and the way the pass through entity treated and reported the same item on its return. Also use the form to notify the IRS if you did not receive Schedule K-1 from the partnership (S corporation) or Schedule Q from the REMIC by the due date for filing your return (including extensions).

Form 8082 is also used by a TMP (tax matters partner or tax matters person) to make an administrative adjustment request (AAR) on behalf of the pass through entity.

Who Must File

Note: *All references to Schedule K-1 and Schedule Q in the following instructions also refer to any "similar statement" you may have received from the pass through entity as a subsititute for Schedule K-1 or Schedule Q.*

Generally, file Form 8082 if **any one** of the following applies:

a. **Schedule K-1 or Schedule Q is incorrect.** You believe an item was not properly reported on the Schedule K-1 (including any attached schedule) you received from the partnership or S corporation or the Schedule Q you received from the REMIC. The same is true if you believe an item from your Schedule K-1 (Schedule Q) is incorrect but it is not an item that otherwise has to be reported on your tax return. For example, if you believe that the percentage shown as your ownership of capital at the end of the year was not properly reflected on Schedule K-1, file Form 8082 to report this, even though you are not otherwise required to report that percentage on your tax return. If you discover this kind of inconsistency after filing your original return, file an amended return to report it. In the space provided on the amended return for writing explanations, write "See attached Form 8082." In this case, no amounts need to be entered on the amended return if the Form 8082 item is the only reason for filing the amended return.

b. **Partnership , S corporation, or REMIC has not filed a tax return or given you a Schedule K-1 or Schedule Q.** The pass through entity has not filed a tax return or given you a Schedule K-1 (Schedule Q) by the time you are required to file your tax return, and there are items you must include on your return.

c. **AAR as an amended return.** You are filing an amended return (administrative adjustment request (AAR) for pass through entity items) on which you are changing the amount or treatment of any item from the way you reported it on your original or previously filed return.

Generally, you may file an amended return to change items from a pass through entity at any time that is:

1. within 3 years after the later of:
   a. the date on which the pass through entity return for such year is filed, or
   b. the last day for filing the pass through entity return for such year (excluding extensions); **and**
2. before a notice of final pass through entity administrative adjustment for the tax year is mailed to the tax matters partner or tax matters person.

A partnership return (REMIC return) is generally due by the 15th day of the fourth month following the close of the partnership's (REMIC's) tax year.

An S corporation return is generally due by the 15th day of the third month following the close of the S corporation's tax year.

d. **AAR as a substituted return.** You are filing an administrative adjustment request (AAR) as the tax matters partner (or tax matters person) on behalf of the pass through entity. File an amended Form 1065 (Form 1120S or Form 1066) but do not enter any amounts on the form itself. On an attached Form 8082 identify the amount or treatment of any item you are changing from the way you reported it on your return as originally filed or as you later amended it. The tax matters partner (or tax matters person) must sign the amended Form 1065 (Form 1120S or Form 1066). If the tax matters partner (or tax matters person) is requesting treatment of the AAR as a substituted return, on the top margin enter "See attached Form 8082 for AAR per IRC section 6227(b)(1)." Attach revised Schedules K-1 (Schedules Q) showing the changes made by the administrative adjustment request for each partner (shareholder or residual holder).

Caution: *If you do not notify the IRS that you are reporting an item (Part I, line 1, box a) inconsistently, any deficiency (including any penalties applicable to the deficiency) that results from a computational adjustment to make your amount or treatment of the item consistent with the amount or treatment of the item on the partnership, S corporation, or REMIC's return may be assessed immediately. An inconsistent item can exist on either your original or amended return.*

Exceptions

You do not have to file Form 8082:

a. For any amount of loss, deduction, or investment credit that you don't report on your return from Schedule K-1 (Schedule Q) because the amount is otherwise limited by law (such as a loss limited by the at-risk rules); OR

b. If you are a partner and your partnership has 10 or fewer partners, each of whom is an individual (other than a nonresident alien) or an estate, and each partner's proportionate share of each partnership item is the same as his or her proportionate share of every other item, and an election has not been made (or if made, the election has been revoked) under section 6231(a)(1)(B)(ii) to have the consolidated partnership audit rules apply.

c. If you are a shareholder and your S corporation has 5 or fewer shareholders, each of whom is an individual or an estate, and an election has not been made under regulation section 301.6241-1T(c)(2)(v)(A) to have the consolidated audit rules apply.

d. If you are a residual holder and your REMIC has 10 or fewer residual holders, each of whom is an individual (other than a nonresident alien) or an estate, and an election under section 6231(a)(1)(B)(ii) has not been made by the REMIC.

Penalty

If you intentionally or negligently disregard the requirements for filing Form 8082, you may be subject to the negligence penalty under section 6653(a). This penalty is in addition to any tax that results from a computational adjustment to make your amount or treatment of the item consistent with the amount or treatment of the item on the pass through entity's return.

How Many Forms To Complete

You must complete and file a separate form for each pass through entity for which you are reporting an inconsistent or AAR item. If you are reporting more than four inconsistent or AAR items from one pass through entity, use additional Forms 8082.

When To File

Attach Form 8082 when you file your original or amended tax return.

Specific Instructions

Specific instructions for most of the lines have been provided. Those lines that do not appear in the instructions are self-explanatory.

Note: *If the pass through entity did not file a return or give you a Schedule K-1 (Schedule Q) by the time you are required to file your return, complete Parts I and II to the best of your knowledge.*

If you can't complete an item in Part I or Part II, enter "See Part III" in the entry space for that item.

Part I

Line 1.—Check box **a** if either 1. or 2. below applies:

1. You believe an item was not properly reported on the Schedule K-1 (Schedule Q) you received; **or**
2. The pass through entity has not filed a tax return or given you a Schedule K-1 (Schedule Q) by the time you are required to file your tax return.

Check box **b** if you are filing an amended return (administrative adjustment request (AAR)) on which you are changing the amount or treatment of any item from the way you reported it on your return or in the case of a tax matters partner (person), the pass through entity return as originally filed or as you later amended it.

Check box **a** and box **b** if you are reporting an item on your amended return (AAR) differently from the way that you reported the item on your original return and inconsistently with the way the pass through entity reported the item.

Lines 2, 3a, 3b, 4, and 5a.—Generally, the information for these items can be found on the Schedule K-1 (Schedule Q). Enter on line 3a, the pass through entity's identifying number. Enter on line 3b, the tax shelter registration number as shown on the Schedule K-1. Enter "not applicable" if no registration number is reported on the Schedule K-1. Line 3b does not apply to residual holders. The tax year of a REMIC (line 5a) always ends with December 31.

Part II

Column (a).—If you received a Schedule K-1 (Schedule Q), enter the line number and description shown on the schedule. Otherwise, enter a complete description of the item.

Column (b).—If you believe that the amount of any item shown on the Schedule K-1 (Schedule Q) was not properly reported, check "Amount of item."

If you believe that the treatment of any item was not properly reported (for example, a long-term capital gain that a partner thinks should be a short-term capital gain) on the Schedule K-1 (Schedule Q), check "Treatment of item."

Check both parts of column **(b)** if **either** 1. or 2. below applies:

1. You believe that both the amount and treatment of the item shown on the Schedule K-1 (Schedule Q) were not properly reported, or you believe an item was omitted from the Schedule K-1 (Schedule Q); or
2. The pass through entity did not file a return or give you a Schedule K-1 (Schedule Q).

Note: *If you check only "Treatment of item," you do not need to complete columns **(d)** and **(e)**.*

Column (c).—If Form 8082 is being attached to your original return, enter the amount as shown on the Schedule K-1 (Schedule Q) you received.

If Form 8082 is being attached to your amended return, enter the amount as shown on your return as originally filed or as you last amended it prior to the current amendment.

If the pass through entity did not file a return, or if you did not receive a Schedule K-1 (Schedule Q), or if you are reporting items that you believe were omitted from the Schedule K-1 (Schedule Q), enter zero in column **(c).**

Part III

Explain in detail the reason(s) you are reporting an inconsistent or amended item as follows:

a. If you believe that the amount or treatment of any item shown on the Schedule K-1 (Schedule Q) was not properly reported, state how you think the item should be treated and why.

b. If the pass through entity has not filed a tax return by the time you are required to file your tax return, enter as the explanation, "Partnership (S corporation or REMIC) return not filed."

c. If the pass through entity did not give you a Schedule K-1 (Schedule Q) by the time you are required to file your tax return, enter as the explanation "Schedule K-1 (Schedule Q) or similar statement not received."

d. If you are filing an amended return (administrative adjustment request (AAR)) on which you are changing the amount or treatment of any item on your original return, explain why you are changing the item.

e. If you believe an item was omitted from the Schedule K-1 (Schedule Q), enter as the explanation "Item was omitted from Schedule K-1 (Schedule Q) or similar statement."

If you need more space for your explanation, attach additional sheets. Clearly identify on each sheet the item to which the explanation relates. Be sure to also include your name and identifying number on each additional sheet.

Form **8396**

Department of the Treasury
Internal Revenue Service

Mortgage Interest Credit

(For Qualified Mortgage Credit Certificate Holders)

▶ **Attach to Form 1040.**

OMB No. 1545-0930

1988

Attachment
Sequence No. **53**

Name(s) as shown on Form 1040

Social security number

Enter the address of your principal residence on which the credit is claimed if it is different than the address shown on Form 1040.

Part I Computation of Mortgage Interest Credit

1	Interest paid on the certified indebtedness amount. (Enter your share of interest paid if two or more persons hold an interest in the residence.)	1		
2	Certificate credit rate shown on mortgage credit certificate	2		
3	Multiply line 1 by line 2. Reduce your mortgage interest deduction on Schedule A (Form 1040) by this amount. If line 2 is more than 20%, do not enter more than $2,000 on this line. (See instructions for **How To Figure the Credit.**).	3		
4	Credit carryforward from 1985 (line 18 of your 1987 Form 8396). If -0-, enter -0-	4		
5	Credit carryforward from 1986 (line 16 of your 1987 Form 8396). If -0-, enter -0-	5		
6	Credit carryforward from 1987 (line 20 of your 1987 Form 8396). If -0-, enter -0-	6		
7	Add lines 3, 4, 5, and 6	7		
8	Enter the amount of tax shown on Form 1040, line 40	8		
9	Add the amounts from Form 1040, lines 41 and 42, and enter the total	9		
10	Subtract line 9 from line 8. If zero or less, enter -0-	10		
11	Enter the amount from Form 6251, line 15	11		
12	Subtract line 11 from line 10. If -0- or less, enter -0-	12		
13	Enter the smaller of line 7 or line 12. Also enter the amount on the dotted line next to line 46, Form 1040, and write "MIC."	13		

Part II Mortgage Interest Credit Carryforward to 1989. (Complete only if line 13 is less than line 7.)

14	Add lines 3 and 4	14		
15	Enter the amount from line 7	15		
16	Enter the larger of line 13 or line 14	16		
17	Subtract line 16 from line 15	17		
18	**1987 credit carryforward to 1989.** Enter the smaller of line 6 or line 17	18		
19	Subtract line 18 from line 17. If -0- or less, do not complete the rest of the form	19		
20	**1986 credit carryforward to 1989.** Enter the smaller of line 5 or line 19	20		
21	**1988 credit carryforward to 1989.** Subtract line 13 from line 3. If -0- or less, enter -0-	21		

For Paperwork Reduction Act Notice, see page 2.

Form **8396** (1988)

General Instructions

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information. The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	46 minutes
Learning about the law or the form	4 minutes
Preparing the form	28 minutes
Copying, assembling, and sending the form to IRS	14 minutes

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to either **IRS** or the **Office of Management and Budget** at the addresses listed in the instructions for Form 1040.

Purpose of Form.—Form 8396 is used to figure your mortgage interest credit and any carryforward you may have to a subsequent year.

Who May Claim the Credit.—You may claim the credit if you were issued a qualified mortgage credit certificate under a qualified mortgage credit certificate program, and the residence to which the certificate relates is your principal residence. The residence must also be located in the jurisdiction of the governmental unit issuing the certificate. You may not claim a credit if the interest on the mortgage for which the credit certificate was issued is paid to a related person. Get **Publication 545,** Interest Expense, for more information on related party transactions.

How To Figure the Credit.—The credit is figured by multiplying the amount of interest paid during the year on the loan amount covered by the certificate by the certificate credit rate shown on your certificate.

If the certificate credit rate is more than 20%, your credit is limited to $2,000 or your share of the $2,000 (if two or more persons own the residence). When two or more persons hold an interest in the residence, the $2,000 must be allocated in proportion to the interest held.

Note: *If the only two persons holding the interests are married filing a joint return, the credit does not have to be allocated.*

Home Mortgage Interest Deduction on Schedule A.—You must reduce your home mortgage interest by the amount of the credit shown on line 3. Use the amount on line 3 even if part of the mortgage interest credit is carried forward for use in a subsequent year.

Carryforward of Unused Credit.—Your mortgage interest credit may not exceed your tax liability for the tax year (line 40, Form 1040) reduced by any other personal credits you are entitled to on lines 41 and 42 of Form 1040. If your mortgage interest credit is more than your tax liability reduced by the other personal credits, you may carry forward the unused portion of the credit to your next 3 tax years or until used, whichever comes first. Because the credit can only be carried forward for 3 years, you will have to keep track of the unused credit by year. The current year credit is applied first and then the earliest year(s).

Note: *If you are subject to the $2,000 credit limitation because your certificate credit rate is more than 20%, no amount over the $2,000 (or your prorated share of the $2,000 if you must allocate the credit) may be carried forward for use in a subsequent year.*

Specific Instructions

Line 1.—Enter the interest paid during the year on the loan amount shown on your mortgage credit certificate. In most cases, this will be the amount shown on **Form 1098,** Mortgage Interest Statement, or on a similar statement that you receive from your mortgage holder. If two or more persons held interests in the residence, enter only the interest you paid. If the loan amount (certified indebtedness amount) shown on your mortgage credit certificate is less than your total mortgage loan, get **Publication 530,** Tax Information for Homeowners, for an example of how to figure the interest for this line.

Line 2.—The certificate credit rate can be found on the mortgage credit certificate you were issued.

Line 11.—**Form 6251,** Alternative Minimum Tax—Individuals, is the form you use to compute your tentative minimum tax (before any foreign tax credit). Enter the amount, if any, from line 15 of Form 6251 on line 11 of this form.

Lines 18, 20, and 21.—These lines show the amounts of unused credits, if any, that are carried forward from 1986, 1987, and 1988 to 1989. Be sure to keep a copy for your records because you will need this to figure your credit in 1989.

Form **8736**
(July 1988)
Department of the Treasury
Internal Revenue Service

Application for Automatic Extension of Time To File Return for a U.S. Partnership or for Certain Trusts

▶ **File a separate application for each return.**

OMB No. 1545-1054
Expires: 6-30-91

Please type or print.

File Form 8736 by the due date for filing the return for which an extension is requested. (See instructions.)

Name

Number and street (or P.O. Box number if mail is not delivered to street address)

City or town, state, and ZIP code

Employer identification number

1 An automatic extension of 3 months is requested in which to file (check only one):
☐ Form 1041
☐ Form 1041S
☐ Form 1065

If the entity for which an extension is requested does not have an office or place of business in the United States, check this box ▶ ☐

2 For calendar year 19_____, or other tax year beginning _____________________, 19___, and ending _____________________, 19___.

3 If this extension is requested for Form 1041, enter the following amounts:

a Tentative total tax from Form 1041 (see instructions). . . . . $ ____________

b Refundable credits and estimated tax payments, including any prior year overpayment allowed as a credit, from Form 1041 (see instructions) . . . . $ ____________

c Balance due (subtract line 3b from line 3a). If zero or less enter zero (0). Include payment with Form 8736 . $

Caution: *Interest will be charged on any tax not paid by the regular due date of Form 1041 from the due date until the tax is paid.*

Signature and Verification

Under penalties of perjury, I declare that I have examined this form, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete; and that I am authorized to prepare this form.

Signature ▶

Date ▶

General Instructions

(Section references are to the Internal Revenue Code unless otherwise noted.)

Paperwork Reduction Act Notice

We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Form

Form 8736 is used by partnerships filing **Form 1065,** U.S. Partnership Return of Income, and by trusts filing either **Form 1041,** U.S. Fiduciary Income Tax Return, or **Form 1041S,** U.S. Fiduciary Income Tax Return for Nontaxable Simple Trusts, to request an automatic 3-month extension of time to file. If granted, the automatic extension will extend the due date of the return to the fifteenth day of the third month following the month in which the regular due date falls. The automatic 3-month extension period includes any 2-month extension granted under regulations section 1.6081-2 to certain foreign partnerships.

Generally, an extension will be granted if you complete Form 8736 properly, file it on time, and pay the balance of any tax due (as shown on line 3c) when Form 8736 is filed. We will notify you only if your request for an extension is denied.

Note: *An automatic extension of time to file Form 1041, Form 1041S, or Form 1065 will neither extend the time for filing the income tax returns of the beneficiaries of the trust or the partners of the partnership, nor extend the time by which such beneficiaries or partners must make estimated tax payments.*

When to File

Partnerships.—A partnership must file Form 8736 by the later of: (i) the regular due date of the partnership return (without regard to any extensions of time to file), and (ii) the expiration of any extension of time to file granted under regulations section 1.6081-2 to certain foreign partnerships. In general, the regular due date for a partnership return is the 15th day of the 4th month following the close of the tax year of the partnership. However, the regular due date for a partnership consisting entirely of nonresident aliens is the 15th day of the 6th month following the close of the tax year of the partnership.

Trusts.—A trust must file Form 8736 by the 15th day of the 4th month following the close of the tax year of the trust.

Filing Form 8800.—If Form 8736 has already been filed but more time is needed, file **Form 8800,** Application for Additional Extension of Time To File Return for a U.S. Partnership or for Certain Trusts. Except in cases of undue hardship, we will not accept Form 8800 unless Form 8736 has already been filed. Before an additional extension can be granted, reasonable cause for the additional time needed to file must be shown.

Ask for the additional extension early so that if it is denied the return can still be filed on time.

No Blanket Requests

File a separate Form 8736 for each return for which an extension of time to file is requested. Blanket requests for extensions will not be granted.

Where to File

File Form 8736 with the Internal Revenue Service Center where the partnership or trust files its return. If the partnership or trust does not have a principal office or place of business in the United States, file Form 8736 with the Internal Revenue Service Center, Philadelphia, PA 19255.

Penalties and Interest

Form 1041.—One or both of the following penalties may be assessed:

Late payment penalty.—Form 8736 does not extend the time to pay tax. Generally a penalty of ½ of 1% of any tax (other than estimated tax) not paid by the due date is charged for each month, or part of a month, that the tax remains unpaid. The penalty will not be charged if reasonable cause for the failure to pay on time is shown.

Late filing penalty.—A penalty is charged if the return is filed after the due date (including extensions) unless reasonable cause for the failure to file on time is shown. The penalty is 5% of the tax not paid by the regular due date (even if an extension of time to pay has been granted) for each month, or part of a month, that the return is late. If the return is more than 60 days late, the penalty will not be less than $100 or the balance of the tax due on the return, whichever is smaller.

Interest—Interest is charged on the tax not paid by the regular due date of the return from the due date until the tax is paid. It will be charged even if an extension of time to file has been granted and even if reasonable cause for the failure to pay on time is shown.

Form 1041S and Form 1065.—Different penalties may apply with regard to the failure to file Form 1041S or Form 1065. See the separate instructions for each form for additional information.

Specific Instructions

Extension for an Initial or a Final Return

If the partnership or trust is requesting an extension for the Form 1065, 1041, or 1041S for the first tax year during which the partnership or trust was in existence, type or print across the top of Form 8736 "Initial return extension." On the other hand, if the return for which an extension is requested is the return filed for the tax year during which the entity terminated, type or print across the top of Form 8736 "Final return extension."

Address.—Enter the address of the entity for which an extension is requested in the format shown on Form 1041, 1041S, or 1065, as applicable.

Line 1.—Check the box for the form filed by the entity for which an extension is requested. A separate Form 8736 must be filed for each return. Check only one box.

Line 3a.—Enter the total tax that the trust expects to owe for the tax year. The total tax for the trust consists of the regular income tax on the taxable income of the trust, plus other taxes, less allowable nonrefundable credits, and plus recapture taxes and alternative minimum tax.

Line 3b.—Include in the amount entered on line 3b all estimated tax payments, any overpayment from the prior year that was applied to the current year, any refundable credits, and all Federal income tax withheld.

Line 3c.—Filing Form 8736 does not delay the time to pay any tax due. To qualify for an extension of time to file, you must pay the amount of tax shown on line 3c in full when Form 8736 is filed. To help us process your check more efficiently, please write the trust's taxpayer identification number, the tax year to which the payment applies, and "Form 8736" on your check.

Signature.— Form 8736 must be signed by one of the following individuals:

- If this extension is for Form 1041 or 1041S, a fiduciary or other person duly authorized to file the trust return, but only if such other person is (i) an attorney who is a member in good standing of the bar of the highest court of a state, possession, territory, commonwealth, or the District of Columbia, (ii) a certified public accountant duly qualified to practice in a state, possession, territory, commonwealth, or the District of Columbia, (iii) a person currently enrolled to practice before the Treasury Department, or (iv) a duly authorized agent holding a power of attorney with respect to the filing of the trust return; or
- If this extension is for Form 1065, either a general partner authorized to file the partnership return or some other person authorized by the general partner to file Form 8736, but only if such other person is a person specified in (i) through (iii), above.

Form **8800**
(August 1988)
Department of the Treasury
Internal Revenue Service

Application for Additional Extension of Time To File Return for a U.S. Partnership or for Certain Trusts

▶ File a separate application for each return.

OMB No. 1545-1057
Expires: 07-30-91

Please type or print. File Form 8800 by the due date for filing the return for which an extension is requested. (See instructions.)

Name

Employer identification number

Number and street (or P.O. box number if mail is not delivered to street address)

City or town, state, and ZIP code

1 An additional extension of time until ...., 19 ......, is requested in which to file (check only one):

☐ Form 1041 ☐ Form 1041S ☐ Form 1065

If the entity for which an extension is requested does not have an office or place of business in the United States, check this box. ▶ ☐

2 For calendar year 19 ......, or other tax year beginning ...., 19 ......, and ending ...., 19 ......

3 Was a previous extension of time to file granted for this tax year? ☐ Yes ☐ No

4 If yes, previous extension was granted until (date) ....

5 State in detail why you need an extension. ....

Signature and Verification

Under penalties of perjury, I declare that I have examined this form, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete, and that I am authorized to prepare this form.

Signature

Date

File original and one copy. The IRS will indicate in the space below whether or not your application is approved and will return the copy.

Notice to Applicant—To Be Completed by the IRS.

☐ We **HAVE** approved this application. Please attach this form to your return.

☐ We **HAVE NOT** approved this application. However, we have granted a 10-day grace period from the later of the date shown below or the due date of your return (including any prior extension). This grace period is considered to be a valid extension of time for elections otherwise required to be made on a timely return. Please attach this form to your return.

☐ We **HAVE NOT** approved your application. After considering the reasons stated in item 5, above, we cannot grant your request for an extension of time to file. We are not granting a 10-day grace period.

☐ We cannot consider your application because it was filed after the due date of the return for which an extension was requested.

☐ Other: ....

Director

By:

Date

If the copy of this form is to be returned to an address other than that shown above, please enter the address to which the copy should be sent.

Please Type or Print

Name

Number and street (or P.O. box number if mail is not delivered to street address)

City or town, state, and ZIP code

For Paperwork Reduction Act Notice, see back of form.

Form **8800** (8-88)

General Instructions

(Section references are to the Internal Revenue Code unless otherwise noted.)

Paperwork Reduction Act Notice

We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

The estimated average time needed to complete this form, depending on individual circumstances, is 14 minutes. If you have comments concerning the accuracy of this time estimate or suggestions for making this form more simple, we would be happy to hear from you. You can send your comments to the Internal Revenue Service, Washington, D.C. 20224, Attention: IRS Reports Clearance Officer TR:FP; or the Office of Information and Regulatory Affairs, Office of Management and Budget, Washington, D.C. 20503, Attention: Desk Officer for Internal Revenue Service.

Purpose of Form

Form 8800 is used by partnerships filing **Form 1065,** U.S. Partnership Return of Income, and by trusts filing either **Form 1041,** U.S. Fiduciary Income Tax Return, or **Form 1041S,** U.S. Fiduciary Income Tax Return for Nontaxable Simple Trusts, to request an additional extension of time to file. Except in cases of undue hardship, do not file Form 8800 unless **Form 8736,** Application for Automatic Extension of Time To File Return for a U.S. Partnership or for Certain Trusts, has already been filed and an additional extension is needed. Before an additional extension of time to file will be granted, you must show reasonable cause why you cannot file your return within the 3-month automatic extension period allowed when Form 8736 is filed.

Note: *An extension of time to file Form 1041, Form 1041S, or Form 1065 will neither extend the time for filing the income tax returns of the beneficiaries of the trust or the partners of the partnership nor extend the time by which such beneficiaries or partners must make estimated tax payments.*

When To File

You must file Form 8800 by the later of the regular due date or the extended due date (if a previous extension was granted) of the return for which an extension is requested. The regular due date of Form 1041 or Form 1041S is the 15th day of the 4th month following the close of the tax year of the trust. The regular due date of Form 1065 is the 15th day of the 4th month following the close of the tax year of the partnership.

You should file Form 8800 in adequate time to permit the Internal Revenue Service to consider the application and reply before the return's regular or extended due date.

No Blanket Requests

A separate Form 8800 must be filed for each return for which an extension of time to file is requested.

Where To File

File Form 8800 with the Internal Revenue Service Center where the entity for which an extension is requested files its return. If the entity does not have a principal office or place of business in the United States, file Form 8800 with the Internal Revenue Service Center, Philadelphia, PA 19255.

Period of Extension

We cannot grant an extension of more than 6 months. This 6-month period includes any 3-month extension obtained by filing Form 8736. Thus, if you previously filed Form 8736 the maximum additional extension that may be requested is 3 months.

Penalties and Interest

One or both of the following penalties may be assessed:

Late payment penalty.—Form 8800 does not extend the time to pay any tax due. Generally, a penalty of ½ of 1% of any tax (other than estimated tax) not paid by the due date is charged for each month, or part of a month, that the tax remains unpaid. The penalty will not be charged if reasonable cause for the failure to pay on time is shown.

Late filing penalty.—A penalty is charged if the return is filed after the due date (including extensions) unless reasonable cause for the failure to file on time is shown. The penalty is 5% of the tax not paid by the regular due date (even if an extension of time to pay has been granted) for each month, or part of a month, that the return is late. If the return is more than 60 days late, the penalty will not be less than $100 or the balance of the tax due on the return, whichever is smaller.

Interest

Interest is charged on the tax not paid by the regular due date of the return from the due date until the tax is paid. It will be charged even if an extension of time to file has been granted and even if reasonable cause for the failure to pay on time is shown.

Specific Instructions

Extension for an Initial or a Final Return

If the partnership or trust is requesting an extension for the Form 1065, 1041, or 1041S for the first tax year during which the partnership or trust was in existence, type or print across the top of Form 8800 "Initial return extension." On the other hand, if the return for which an extension is requested is the return filed for the tax year during which the entity terminated, type or print across the top of Form 8800 "Final return extension."

Line 1.—Check the box for the form filed by the entity for which an extension is requested. A separate Form 8800 must be filed for each return. Check only one box

Signature.—Form 8800 must be signed by one of the following individuals:

- if this extension is for Form 1041 or 1041S, a fiduciary or other person duly authorized to file the trust return, but only if such other person is (i) an attorney who is a member in good standing of the bar of the highest court of a state, possession, territory, commonwealth, or the District of Columbia, (ii) a certified public accountant duly qualified to practice in a state, posssession, territory, commonwealth, or the District of Columbia, (iii) a person currently enrolled to practice before the Treasury Department, or (iv) a duly authorized agent holding a power of attorney with respect to the filing of the trust return; or
- if this extension is for Form 1065, either a general partner authorized to file the partnership return or some other person authorized by the general partner to file Form 8800, but only if such other person is a person specified in (i) through (iii), above.

☆ U.S. GOVERNMENT PRINTING OFFICE: 1988— 2 0 3 - 8 8 3 / 0

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